Financial Section

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Independent Auditor's Report

To the Board of Administration
California Public Employees' Retirement System
Sacramento, California

We have audited the accompanying statement of fiduciary net assets of the fiduciary funds and the statement of net assets of the proprietary funds of the California Public Employees' Retirement System (the System or CalPERS), a component unit of the State of California, as of June 30, 2007, and the related statement of changes in fiduciary net assets of the fiduciary funds, and the statements of revenues, expenses and changes in net assets and cash flows of the proprietary funds for the year then ended. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the System's 2006 financial statements which were audited by other auditors whose report dated November 14, 2006, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net assets of the fiduciary funds and the net assets of proprietary funds of the California Public Employees' Retirement System as of June 30, 2007, and the changes in fiduciary net assets of the fiduciary funds and the changes in net assets and cash flows of the proprietary funds for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

As discussed in Note 2, effective July 1, 2006, the System adopted the provisions of Governmental Accounting Standards Board Statement No. 43, Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans.

As discussed in Note 5, actuarial data presented for the California Employers' Retirement Benefit Trust Fund was derived from actuarial valuations performed by actuarial firms engaged by participating employers. Actuarial valuations must comply with the CalPERS OPEB Assumption Model., which requires the use of specified actuarial methods and assumptions.

As also discussed in Note 5 to the financial statements, actual contributions made by the State of California to the Judges Retirement Fund were significantly less than the actuarially determined annual required contribution. State of California contributions were used to fund benefit payments of the current period. As such, the Judges Retirement Fund does not retain the accumulated contributions of active members. Management and legal counsel believe the State of California is legally required to provide contributions to fund benefits when due.

The Management's Discussion and Analysis on pages 10 through 30, the Schedules of Funding Progress on pages 60 through 61 and the Schedules of Employer Contributions on pages 62 through 65 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Certified Public Accountants

Sacramento, California
November 13, 2007

This section presents management's discussion and analysis of the California Public Employees' Retirement System (CalPERS) financial performance during the fiscal year ended June 30, 2007, and is presented as a narrative overview and analysis in conjunction with the Chief Executive Officer's Letter of Transmittal included in the Introductory Section of the CalPERS Comprehensive Annual Financial Report. The Management's Discussion and Analysis should be read in conjunction with the basic financial statements of CalPERS, as presented in the Comprehensive Annual Financial Report.

In addition to the historical information, the Management's Discussion and Analysis includes certain forward-looking statements which involve certain risks and uncertainties. CalPERS actual results, performance, and achievements may differ materially from the results, performance, and achievements expressed or implied in such forward-looking statements, due to a wide range of factors, including changes in interest rates, changes in the securities markets, general economic conditions, and legislative changes, as well as other factors.

CalPERS is primarily responsible for administering retirement and health benefits, as well as administering supplemental retirement savings plans. CalPERS comprises a total of 17 funds, including five defined benefit pension funds, one other post-employment benefit fund, four defined contribution pension funds, four proprietary funds, and three agency funds. The Public Employees' Retirement Fund (PERF) is the primary fund administered by CalPERS.

Financial Highlights

Public Employees' Retirement Fund (PERF)

- The net assets of the PERF increased by $39.9 billion, or 18.9 percent. The increase was primarily due to strong returns in public and private equity investments.
- The PERF net rate of return on investments of 20.0 percent on a market value basis was an increase from the 11.8 percent rate of return in the prior fiscal year. For the fourth year in a row, CalPERS achieved double-digit investment returns, the highest in nearly a decade. Led by returns in Global Equity and Private Equity, the Real Estate, Risk Managed Absolute Return Strategies and Fixed Income programs all contributed to the 20.0 percent net rate of return for the 2007 fiscal year. The 20.0 percent net rate of return will not impact employer contribution rates until the 2008 fiscal year for the State and school employers and 2009 fiscal year for public agency employers.
- As of June 30, 2006, the date of the most recent actuarial valuation, the PERF is actuarially funded at 87.2 percent, which is nearly the same as the June 30, 2005, funded level. The asset smoothing method only recognizes a portion of the total actuarial gains or losses. Additional actuarial losses from fiscal years when CalPERS had negative investment returns were recognized in the 2005-06 valuation resulting in a stable PERF funded ratio.
- The PERF paid $10.1 billion in retirement benefits to 455,208 annuitants during 2007, compared to $9.2 billion paid to 441,277 annuitants during the 2006 fiscal year. Benefit payments increased primarily due to an increase in the number of new retirees and cost-of-living adjustments (COLA).
- The total active and inactive membership was 1,086,900 at June 30, 2007. The PERF received $3.3 billion in employee contributions from 822,624 active members and $6.4 billion in employer contributions from 1,561 employers during fiscal year 2007, compared with $3.1 billion and $6.1 billion in employee and employer contributions respectively, in fiscal year 2006.

Additional financial information related to the other pension funds administered by CalPERS is included in the Financial Analysis Section of the Management's Discussion and Analysis.

Health, Other Post-Employment Benefits & Long-Term Care Programs

- The CalPERS self-funded health care program earned $103.3 million from operations, and unrestricted net assets increased by $123.4 million to $448.6 million. This increase can be attributed to an increase in self-insurance premiums and savings from pharmacy initiatives.
- The first contributions to the California Employer's Retiree Benefit Trust Fund (CERBTF) of $11.5 million were received, with investment losses of $29,000 and no benefit disbursements. The net asset value of the CERBTF at June 30, 2007 was $11.4 million.

- The unrestricted net assets of the CalPERS Long-Term Care Program amounted to a deficit of $842.3 million at June 30, 2007. This amounts to an average deficit of $4,914 for each of the 171,412 enrollees. The Long-Term Care Program collected $241.5 million in premiums, and the approximate average annual premium per person was $1,409. The deficit of $842.3 million is a deficit increase of $70.8 million from the deficit of $771.5 million of June 30, 2006. The major source of the deficit increase is the increased costs associated with longer life expectancy, which were partially offset by the greater than expected investment income.

Critical Accounting Policies

CalPERS basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). CalPERS significant accounting policies are presented in Note 2 to the basic financial statements, which are included in this Comprehensive Annual Financial Report. CalPERS follows accounting policies to comply with various applicable laws and regulations and the guidelines as established by the Governmental Accounting Standards Board (GASB).

CalPERS most significant management accounting policies relate to the following.

Investments

All investments are reported at fair value. Many factors are considered in arriving at fair value. The fair value of investments in publicly held securities are generally based on actual market prices and quotations from major investment firms. In general, corporate bonds that do not have a published market price are valued based on yields currently available on comparable securities of issuers with similar credit ratings. The CalPERS Investment Office securities analysts or outside experts determine the criteria to identify comparable securities based on the size, industry, and profitability of the company offering the securities and the term, rate, and dollar amount of the security.

Mortgages are valued on the basis of the timing of future principal payments and the amount of interest payments discounted at prevailing interest rates for similar instruments. The prevailing interest rates for mortgages are generally based on the 30-year Treasury note rate, which can be found in financial publications. Market interest rate changes impact the likelihood of refinancing activity, which impacts the value of the mortgage investments. Declining interest rates will cause the value of mortgage investments to increase, but at a slower rate than non-callable similar duration securities.

The fair value of real estate investments, principally rental property subject to long-term net leases, is estimated based on independent appraisals. The appraisals are performed by CalPERS-approved appraisers who meet specific professional qualifications. Appraisals are estimates of current value and are based on three methods: the income approach, the cost approach, and the comparative sales approach. The three approaches are then compared and the appraiser determines the most appropriate valuation for the property. The appraisal process involves a significant amount of judgment, and changes in the real estate marketplace are not immediately taken into consideration, as the appraisals are performed annually.

Short-term investments are reported at fair value, when available, or at cost plus accrued interest, when quoted market values are not available.

Alternative investments consist of investments in a variety of markets and industries through partnerships, co-investments, direct investments, and other investment vehicles. For these investments, and others where no readily ascertainable market value exists, management, in consultation with investment advisors, determined the fair values for the individual investments. Management takes into consideration factors such as the book value, based on audited financial statements, the current and projected income generated by the investment, and the cost of the investment. These estimates are, by their nature, subjective and based on judgment. Hedge funds are valued at fair value.

CalPERS, through outside investment managers, holds investments in futures and options and enters into forward foreign currency exchange contracts. The fair value of futures, options, and forward foreign currency exchange contracts are determined based upon quoted market values.

CalPERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contract. CalPERS investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. Investment performance rates of return for asset classes and total funds are prepared using pre-audit asset data by Wilshire Associates. The returns are based solely on Wilshire Associates' compilation and analysis of the data as provided by the master custodian, State Street Bank.

Actuarial Valuation

Actuarial valuations are used to determine the cost of pension benefits payable to the members of CalPERS who participate in the PERF, the Legislators' Retirement Fund (LRF), the Judges' Retirement Fund (JRF), the Judges' Retirement Fund II (JRF II), and the Volunteer Firefighters' Length of Service Award Fund (VFF), as well as the related required contribution rates. The actuarial valuations include a number of significant assumptions, including the actuarial valuation method used, the asset valuation method, the rate of return on the investment portfolio, rate of inflation, projected salary increases, post retirement benefits, and the life expectancy of members and beneficiaries. Significant actuarial assumptions used in the valuations are included in the Notes to Required Supplemental Schedules on page 66.

Estimated Liabilities

The Public Employees' Health Care Fund (HCF) establishes claim liabilities based on estimates of the ultimate costs of claims (including future claim adjustment expenses) that have been reported but not settled, and claims that have been incurred but not reported (IBNR). The estimated claims liability was calculated by the HCF's third-party administrator, using a variety of actuarial and statistical techniques, and adjusted for actual experience to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. Adjustments to claims liabilities are charged or credited to an expense in the periods in which they are made. The estimated claims liability is carried at its face amount, and no interest discount is assumed. The IBNR portion represents an estimate for claims that have been incurred prior to the fiscal year end, but have not been reported to the HCF.

The Public Employees' Long-Term Care Fund (LTCF) estimates the required funding level to provide for the payment of future claim benefits. This estimate is predicated upon participation levels that are expected to be achieved by the program. The LTCF establishes the current liability for future benefits based on the present value of such future benefits and expenses, less the present value of expected future premiums.

An actuarial valuation establishes the liability for future policy benefits based on the present value of future benefits and expenses less the present value of future premiums. The liability for future policy benefits was calculated by using a variety of actuarial and statistical techniques.

The actuarial valuations for the CERBTF are conducted by outside actuarial firms that must base their valuations on the CalPERS OPEB Assumption Model. This model requires the use of actuarial methods and assumptions similar to those employed for the PERF. An additional assumption used for the CERBTF is the health care cost trend rate. The actuarial valuation estimates the cost of future health and other post-employment benefit insurance premiums for current and retired participating employees.

Overview of the Financial Statements

The Management's Discussion and Analysis provides an introduction to and overview of the CalPERS basic financial statements, which comprise the following components: fund financial statements, notes to the financial statements, required supplementary information, and other supplementary schedules. Collectively, this information presents the combined net assets held in trust for pension benefits and other post-employment benefits, and the combined unrestricted net assets for each of the other funds administered by CalPERS as of June 30, 2007 and summarizes the combined changes in net assets held in trust for pension and other post-employment benefits, the combined changes in unrestricted net assets, and the cash flows of the proprietary funds for the year then ended, along with an actuarial view on the funding status of the defined benefit plans. The information available in each of these sections is briefly summarized as follows.

Fund Financial Statements

At June 30, 2007, financial statements are presented for the two types of funds administered by CalPERS: fiduciary funds and proprietary funds.

Fiduciary Funds — include pension trust funds, one other post-employment defined benefit fund, and agency funds. The defined benefit plans administered by CalPERS include the PERF, LRF, JRF, JRF II, and the CERBTF. The defined contribution plans administered by CalPERS include the State Peace Officers' and Firefighters' Defined Contribution Plan Fund (SPOFF), the Public Agency Deferred Compensation Program (IRC 457), the Replacement Benefit Fund (RBF) and the Supplemental Contributions Program Fund (SCPF). The remaining fiduciary funds are the VFF, an award system, the Old Age & Survivors' Insurance Revolving Fund (OASI), the Special Deposit Agency Fund (SDF), and the Contingency Reserve Agency Fund (CRF). The fiduciary funds are used to account for resources held for the benefit of CalPERS participants. A statement of fiduciary net assets and a statement of changes in fiduciary net assets are presented for the fiduciary funds as of and for the year ended June 30, 2007, along with comparative total information as of and for the year ended June 30, 2006. These financial statements reflect the resources available to pay benefits to retirees and other beneficiaries as of year end, as well as the changes in those resources during the year.

Proprietary funds — include the following enterprise funds: the Public Employees' Health Care Fund (HCF), the Public Employees' Contingency Reserve Fund (CRF), the Public Employees' Long-Term Care Fund (LTCF), and the Public Employees' Deferred Compensation Fund (DCF). Proprietary funds are used to account for CalPERS business-type activities, where fees are charged to cover the costs of certain services, including long-term care, health care, and other benefits. A statement of net assets, a statement of revenues, expenses, and changes in fund net assets, and a statement of cash flows are presented for the proprietary funds as of June 30, 2007, and for the year then ended, along with comparative total information as of and for the year ended June 30, 2006. These financial statements reflect the net assets of, changes in net assets of, and cash flows from CalPERS business-type activities.

Notes to the Basic Financial Statements

The financial statement notes provide additional information that is essential to a full understanding of the information provided in the fund financial statements. Information available in the notes to the financial statements is described below.

Note 1 — provides a general description of CalPERS, as well as a concise description of each of the funds administered by CalPERS. Information regarding employer and member participation in the pension plans administered by CalPERS is also provided.

Note 2 — provides a summary of significant accounting policies, including the basis of accounting for each of the fund types, investment accounting policies, management's use of estimates, information regarding the implementation of new accounting pronouncements, and other significant accounting policies.

Note 3 — provides information on cash and cash equivalents.

Note 4 — describes investments, including investing authority, investment risk categorizations, and additional information about cash, securities lending, and derivatives.

Note 5 — provides information about employer contributions to the pension and other post-employment benefit funds administered by CalPERS.

Note 6 — provides information on commitments.

Note 7 — provides information on potential contingencies of CalPERS.

Note 8 — provides detailed information on the estimated claims liability of the HCF.

Note 9 — provides information regarding the LTCF June 30, 2007 actuarial valuation.

Note 10 — provides information regarding the funded status and actuarial assumptions for the CERBTF.

Note 11 — provides information regarding the eventual transfer of VFF assets.

Required Supplementary Information

Because of the long-term nature of a public defined benefit pension plan and other post-employment benefit plans, financial statements for the past year alone cannot provide sufficient information to properly reflect the funded position of the plans. Therefore, in addition to the basic financial statements, two required schedules of historical trend information related to the defined benefit and other post-employment benefit plans are presented as part of the Required Supplementary Information (RSI) section of the basic financial statements. These two schedules are the Required Supplemental Schedule of Funding Progress and the Required Supplemental Schedule of Employer Contributions. These two schedules are based on the actuarial valuations for the pension plans performed by CalPERS actuaries and the other post-employment benefits sponsoring employer actuaries, and provide additional actuarial information that contributes to the understanding of the changes in the actuarial funding and the funded status of these defined benefit and other post-employment benefit plans over the past 10 years. The actuarial information is based upon assumptions made about future events at the time the valuations were performed, and, therefore, the amounts presented are management's estimates. Also included as part of the RSI is the Required Supplemental Schedule of Claims Development Information for the HCF.

Other Supplementary Schedules

Other schedules include detailed information on administrative expenses incurred by CalPERS-administered funds, as well as investment and other professional services expenses incurred.

Financial Analysis of CalPERS Funds

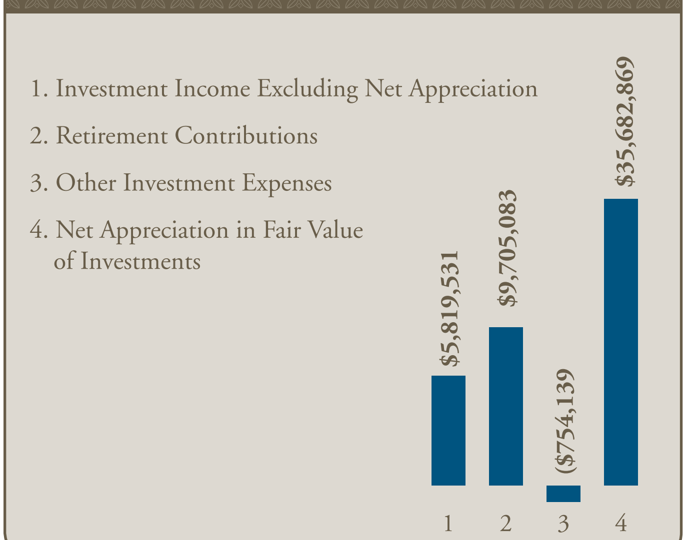
Public Employees' Retirement Fund (PERF)

Plan Net Assets

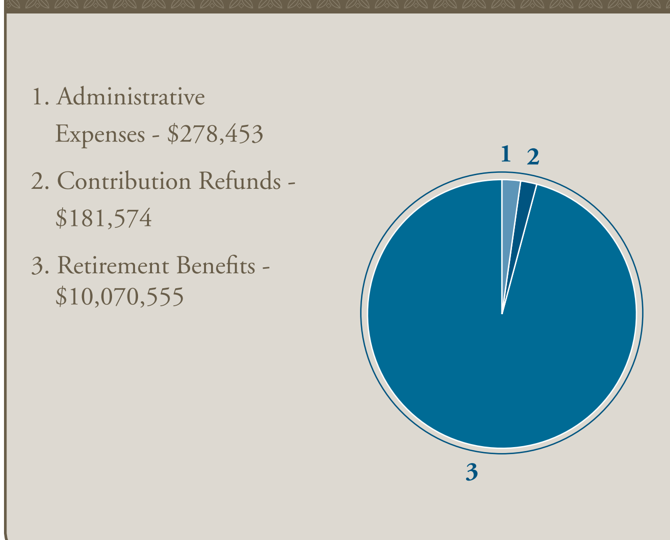
The PERF provides retirement benefits to State of California and other California public agency employees. PERF benefits are funded by member and employer contributions and by earnings on investments. The PERF net assets held in trust for benefits at June 30, 2007 were $251.1 billion, an increase of $39.9 billion (18.9 percent) from $211.2 billion at June 30, 2006.

Additions to PERF net assets held in trust for benefits include employer and member contributions, as well as investment income. For the 2007 fiscal year, employer and member contributions totaled $9.7 billion, an increase of $0.5 billion (5.8 percent) from the 2006 fiscal year. The increase in required contributions was due primarily to an increase in participants. The PERF recognized net investment income of $40.7 billion for the 2007 fiscal year, compared with a net investment income of $22.0 billion for the 2006 fiscal year.

Additions — PERF
(Dollars in Thousands)



Deductions — PERF
(Dollars in Thousands)



Net Assets — PERF

(Dollars in Thousands)

	2007	2006	Total Percentage Change
Assets			
Cash, Cash Equivalents & Total Receivables	$5,862,421	$4,291,764	36.6%
Investments	251,396,742	212,067,935	18.5
Securities Lending Collateral	46,337,538	38,011,353	21.9
Capital Assets & Other	397,813	391,636	1.6
Total Assets	**$303,994,514**	**$254,762,688**	**19.3%**
Liabilities			
Retirement Benefits in Process of Payment, Investment Settlement & Other	$6,534,294	$5,560,534	17.5%
Securities Lending Obligations	46,337,538	38,011,353	21.9
Total Liabilities	**$52,871,832**	**$43,571,887**	21.3
Total Net Assets	**$251,122,682**	**$211,190,801**	**18.9%**

Changes in Net Assets — PERF

(Dollars in Thousands)

	2007	2006	Total Percentage Change
Additions			
Member Contributions	$3,262,699	$3,080,879	5.9%
Employer Contributions	6,442,384	6,095,029	5.7
Investment Income	40,748,261	22,041,265	84.9
Other	9,119	—	—
Total Additions	**$50,462,463**	**$31,217,173**	**61.6%**
Deductions			
Retirement Benefits	$10,070,555	$9,236,073	9.0%
Refund of Contributions	181,574	170,929	6.2
Administrative Expenses	278,453	236,212	17.9
Other Expenses	—	14,039	—
Total Deductions	**$10,530,582**	**$9,657,253**	**9.0%**
Increase in Net Assets	**$39,931,881**	**$21,559,920**	**85.2%**

Deductions from PERF net assets held in trust for benefits consist primarily of retirement, death, and survivor benefits, refunds, and administrative expenses. For the 2007 fiscal year, retirement, death, and survivor benefits totaled $10.1 billion, an increase of $0.9 billion (9.0 percent) from the 2006 fiscal year. The increase in benefit payments was primarily a result of an increase in the number of retirees from 441,277 to 455,208 and COLA increases. For the 2007 fiscal year, the costs of administering the PERF benefits amounted to $278.5 million, an increase of approximately $42.2 million (17.9 percent) from the 2006 fiscal year due to the resumption of information technology projects and increased operating costs.

On a per member and beneficiary basis, the cost of administering PERF benefits during the 2007 fiscal year was approximately $181 per individual, an increase of approximately $22 per individual from the 2006 fiscal year.

An actuarial valuation of PERF assets and benefit obligations is performed annually. At June 30, 2006, the date of the most recent actuarial valuation, the funded status of the PERF was 87.2 percent, a slight decline of 0.1 percent from the funded status at June 30, 2005. The amount by which PERF actuarial benefit liabilities exceeded actuarial assets was $29.0 billion at June 30, 2006, compared with a $26.6 billion funding deficit at June 30, 2005. This increase relates primarily to the recognition of actuarial losses from prior fiscal years when the PERF incurred negative investment returns. Current year earnings will affect future years' funded status and contribution rates using the CalPERS policy of actuarial asset smoothing.

Investments

PERF investments, excluding securities lending collateral, totaled $251.4 billion at June 30, 2007, which was $39.3 billion (18.5 percent) more than the $212.1 billion in total PERF investments at June 30, 2006.

At June 30, 2007, the PERF held $149.7 billion in domestic and international equity securities, an increase of $19.8 billion from $129.9 billion at fiscal year end 2006. The increase was mainly due to above average returns in international equity securities during 2007. Domestic equity and international equity securities earned returns of approximately 20.5 percent and 32.3 percent, respectively, for the 2007 fiscal year, compared to 9.6 percent and 26.7 percent, respectively for fiscal year 2006.

CalPERS benchmark returns for domestic and international equity securities for fiscal year 2007 were 20.3 percent and 30.5 percent, respectively. CalPERS uses the Wilshire 2500 Index to provide a benchmark for the domestic equity investment returns, and the PERS SSGA Custom Index for international equity investment returns. These benchmarks are representative of the returns that could be expected in a similar investing environment, and reflect the overall market conditions.

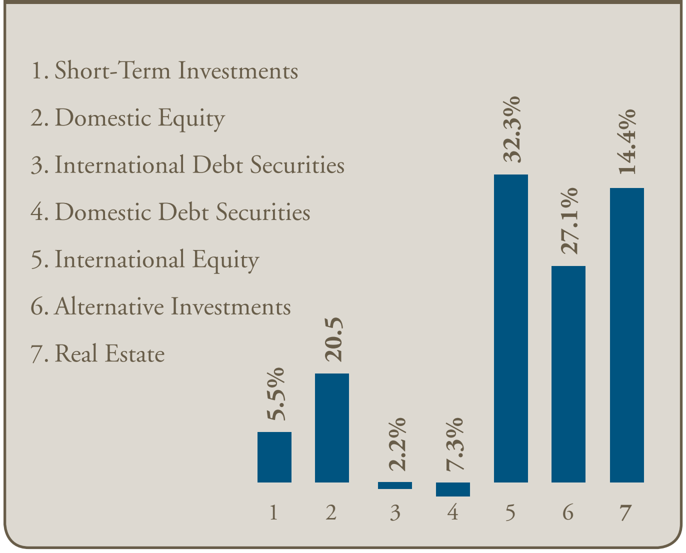
At June 30, 2007, the PERF held $61.2 billion in domestic and international debt securities, an increase of $9.2 billion from $52.0 billion at fiscal year end 2006. Domestic debt securities returned approximately 7.3 percent, and international debt securities returned approximately 2.2 percent for the 2007 fiscal year, compared to a negative

Investments — PERF

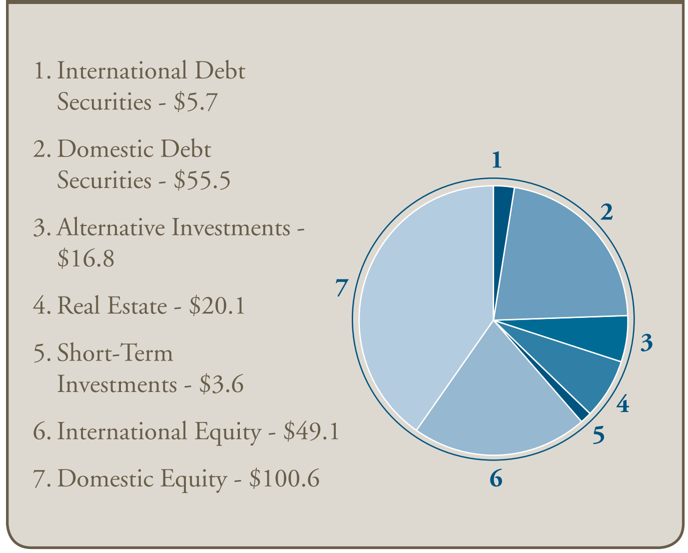
(Dollars in Billions)

Investment Class	Amount	Allocation	Current Year Return	Prior Year Return	Benchmark Return
Short-Term Investments	$3.6	1.4%	5.5%	4.4%	5.4%
Domestic Equity	100.6	40.0	20.5	9.6	20.3
International Equity	49.1	19.5	32.3	26.7	30.5
Domestic Debt Securities	55.5	22.1	7.3	(1.3)	6.5
International Debt Securities	5.7	2.3	2.2	(0.2)	2.6
Real Estate	20.1	7.9	14.4	25.8	13.1
Alternative Investments	16.8	6.7	27.1	19.8	16.2
Total or Overall Return	**$251.4**	**100.0%**	**20.0%**	**11.8%**	**20.3%**

Investment Returns — PERF



Investment Portfolio — PERF at Market Value
(Dollars in Billions)



Note:
Excludes $46.3 billion in securities lending collateral.

1.3 percent and a negative 0.2 percent, respectively for fiscal year 2006. CalPERS benchmark returns were 6.5 percent and 2.6 percent, respectively. CalPERS uses the Lehman Long Liability Index and the Lehman World Government Bonds, Ex-U.S. Index to provide a benchmark for fixed income investment returns. These benchmarks are representative of the returns that could be expected in a similar investing environment.

At June 30, 2007, the PERF held $20.1 billion in net real estate investments, an increase of $4.9 billion from $15.2 billion at the 2006 fiscal year end. CalPERS has continued to increase its real estate holdings in opportunistic and international investments to fulfill investment diversification. Real estate investments returned approximately 14.4 percent for the 2007 fiscal year, compared to 25.8 percent for fiscal year 2006.

CalPERS benchmark real estate return for fiscal year 2007 was 13.1 percent. CalPERS uses the NCREIF Property Index to provide a benchmark for our real estate investment returns.

At June 30, 2007, the PERF held $16.8 billion in alternative investments, an increase of $4.7 billion from $12.1 billion at the 2006 fiscal year end. Alternative investments yielded a return of approximately 27.1 percent for the 2007 fiscal year, compared to 19.8 percent for fiscal year 2006.

CalPERS benchmark alternative investment return for fiscal year 2007 was 16.2 percent. CalPERS uses the Venture Economics Custom Young Fund Universe to provide a benchmark for alternative investments.

At June 30, 2007, the PERF held $3.6 billion in short-term investments, an increase of $0.7 billion from the $2.9 billion at the 2006 fiscal year end. Short-term investments returned approximately 5.5 percent for the 2007 fiscal year, compared to 4.4 percent for fiscal year 2006. CalPERS uses the SSGA Custom STIF as a benchmark for short-term investments.

The PERF earned other investment income of $394.8 million for the 2007 fiscal year. Included in other investment income was income earned from securities litigation, sale of fractional shares, and other miscellaneous income.

The PERF earns additional investment income by lending investment securities. Borrowers will pay a fee for the right to borrow securities, and then provide collateral to the PERF for 102 percent to 105 percent of the values of the securities borrowed. The over collateralization will ensure the PERF is made whole in the event the borrower fails to return the security. The PERF will pay the borrower a rate for holding collateral, called a rebate. The PERF invests the cash collateral in conservative and liquid money markets, and any spread above the rebate rate is additional income for the PERF. For the 2007 fiscal year, net securities lending income amounted to $154.7 million, a decrease of $3.8 million (2.4 percent) from $158.5 million during fiscal year 2006.

CalPERS participates in Directed Brokerage/Commission Recapture arrangements. The CalPERS Directed Brokerage Program had a balance of $1.5 million at July 1, 2006. For fiscal year 2007, brokerage commissions that were rebated totaled $2.0 million. Expenses in the amount of $2.3 million were incurred to purchase analytical tools, advisory, and other research materials. The Directed Brokerage Program had a balance of approximately $1.3 million at June 30, 2007. These amounts are recorded in the accompanying financial statements as of June 30, 2007 and 2006.

CalPERS participates in asset-based lending, in which secured debt is loaned to non-investment grade borrowers, primarily for working capital, acquisitions, turnarounds, growth financing, debtor-in-possession financing, exit financing, and corporate recapitalization/reorganizations. In exchange for these loan amounts, CalPERS receives interest and fees from the borrowers. Interest and fee income earned was $14.3 million for the 2007 fiscal year, and outstanding commitments totaled $572.9 million at June 30, 2007.

Other Defined Benefit Pension Plans

Legislators' Retirement Fund (LRF)

Plan Net Assets

The LRF provides retirement benefits to California Legislators elected to office before November 7, 1990, and to all Constitutional and Statutory Officers. The number of LRF members is declining as eligible incumbent Legislators leave office and are replaced by those ineligible to participate in the LRF.

The LRF net assets held in trust for benefits at June 30, 2007 totaled $142.2 million, an increase of $8.6 million (6.4 percent) from June 30, 2006.

Additions to LRF net assets held in trust for benefits were from investment income and contributions to repurchase military and prior year service credit. There were no actuarially determined annual required employer and member contributions for 2007. Net investment income increased $12.7 million (334.1 percent) to a net investment gain of $16.5 million for the 2007 fiscal year, from a net investment gain of $3.8 million for the 2006 fiscal year, due primarily to a strong domestic and international equity market during 2007.

Deductions in LRF net assets held in trust for benefits are primarily composed of retirement, death, and survivor benefits. For the 2007 fiscal year, these benefits increased $0.4 million (4.8 percent) to $7.7 million from $7.3 million in 2006. On a per member and beneficiary

Investments — LRF

(Dollars in Millions)

	Amount	Allocation	Current Year Return	Prior Year Return	Benchmark Return
Investment Class					
Domestic Equity	$42.6	30.0%	20.6%	8.4%	20.3%
International Equity	14.7	10.4	27.8	26.7	27.8
Domestic Debt Securities	84.5	59.6	6.8	(5.3)	6.6
Total or Overall Return	**$141.8**	**100.0%**	**12.6%**	**2.0%**	**12.4%**

basis, the cost of administering LRF benefits during the 2007 fiscal year was approximately $1,025 per individual, an increase of approximately $86 per individual from the 2006 fiscal year due to increased direct expenses.

An actuarial valuation of LRF assets and benefit obligations is performed annually using the aggregate cost method, which does not identify unfunded actuarial liabilities. Based on the most recent actuarial valuation, performed as of June 30, 2006, the active member contribution rate for the 2008 fiscal year remains at zero percent.

Investments

The LRF invests mainly in domestic and international equity securities, as well as domestic debt securities. LRF investments totaled $141.8 million at June 30, 2007, which was $8.2 million (6.1 percent) greater than the $133.6 million in total LRF investments at June 30, 2006, primarily as a result of expected investment returns.

At June 30, 2007, the LRF held $57.3 million in domestic and international equity securities, an increase of $3.1 million from $54.2 million at fiscal year end 2006.

Net Assets — Other Defined Benefit Pension Plan Funds

(Dollars in Thousands)

	LRF		JRF		JRF II		VFF	
	2007	2006	2007	2006	2007	2006	2007	2006
Assets								
Cash, Cash Equivalents & Receivables	$668	$295	$2,018	$3,062	$2,485	$3,307	$470	$409
Investments	141,811	133,560	10,024	15,028	288,491	215,756	3,540	3,034
Total Assets	**$142,479**	**$133,855**	**$12,042**	**$18,090**	**$290,976**	**$219,063**	**$4,010**	**$3,443**
Total Liabilities	**$270**	**$224**	**$369**	**$204**	**$244**	**$77**	**$14**	**$9**
Total Net Assets	**$142,209**	**$133,631**	**$11,673**	**$17,886**	**$290,732**	**$218,986**	**$3,996**	**$3,434**

Changes in Net Assets — Other Defined Benefit Pension Plan Funds

(Dollars in Thousands)

	LRF		JRF		JRF II		VFF	
	2007	2006	2007	2006	2007	2006	2007	2006
Additions								
Member Contributions	$129	$160	$10,398	$10,315	$11,694	$9,584	$ —	$ —
Employer Contributions	—	—	131,372	120,576	27,062	24,069	328	307
Investment Income	16,530	3,808	1,186	959	35,427	15,474	470	285
Other Income	—	—	2,591	2,874	—	—	—	—
Total Additions	**$16,659**	**$3,968**	**$145,547**	**$134,724**	**$74,183**	**$49,127**	**$798**	**$592**
Deductions								
Retirement Benefits	$7,666	$7,314	$151,059	$133,588	$1,005	$859	$120	$103
Refund of Contributions	92	823	—	323	981	750	—	—
Administrative Expenses	323	290	701	171	451	406	116	105
Other Expenses		5		—		—		—
Total Deductions	**$8,081**	**$8,432**	**$151,760**	**$134,082**	**$2,437**	**$2,015**	**236**	**$208**
Increase (Decrease) in Net Assets	**$8,578**	**($4,464)**	**($6,213)**	**$642**	**$71,746**	**$47,112**	**$562**	**$384**

Domestic and international equity securities yielded returns of approximately 20.6 percent and 27.8 percent for fiscal year 2007 respectively, compared to the 8.4 percent and 26.7 percent for fiscal year 2006. CalPERS benchmark returns for the fiscal year 2007 were 20.3 percent and 27.8 percent. CalPERS uses the Custom S&P 500 Index and MSCI EAFE Index (net of dividends), to provide a benchmark for the domestic and international equity investment returns, respectively. These benchmarks are representative of the returns that could be expected in a similar investing environment and reflect the overall market conditions.

At June 30, 2007, the LRF held $84.5 million in domestic debt securities, an increase of $5.1 million from $79.4 million at fiscal year end 2006. Domestic debt securities returned 6.8 percent for fiscal year 2007, compared to a negative 5.3 percent for fiscal year 2006. CalPERS benchmark return for fiscal year 2007 was 6.6 percent. CalPERS uses the Citigroup Large Pension Fund Index to provide a benchmark for our fixed income investment returns. This benchmark is representative of the returns that could be expected in a similar investing environment, and reflects the overall market characteristics.

Judges' Retirement Fund (JRF)

Plan Net Assets

The JRF provides retirement benefits to California Supreme and Appellate Court Justices and Superior Court Judges. The JRF net assets held in trust for benefits at June 30, 2007, totaled $11.7 million, a decrease of $6.2 million from June 30, 2006.

Additions to JRF net assets held in trust for benefits include employer, State of California, and member contributions, as well as investment income. For the 2007 fiscal year, employer, State, and member contributions increased $10.9 million (8.3 percent) to $141.8 million, from $130.9 million for the 2006 fiscal year, primarily as a result of an increase in the State's contribution. For the 2007 fiscal year, net investment income increased $0.2 million (23.7 percent) from the 2006 fiscal year due mainly to higher average asset balances throughout the year.

Deductions in JRF net assets held in trust for benefits are primarily composed of retirement, death, and survivor benefits. For the 2007 fiscal year, these benefits amounted to $151.1 million, an increase of $17.5 million (13.1 percent) from the 2006 fiscal year. The increase in benefit payments was mainly a result of a COLA and an increase in the number of JRF retirees and beneficiaries to 1,702 in the 2007 fiscal year from 1,660 in the 2006 fiscal year.

On a per member and beneficiary basis, the cost of administering JRF benefits during 2007 was approximately $285 per individual, an increase of approximately $216 per individual from fiscal year 2006. The increase is due primarily to increased direct costs, resumption of normal cost allocation, and a one-time reallocation of expenses in the 2006 fiscal year.

The JRF is funded on a "pay-as-you-go" basis, where short-term investments, contributions received during the year, and a State General Fund augmentation are used to provide funding for benefit payments. This funding method is generally more expensive in the long term, as the fund does not have investment returns generated by a funded

Investments — JRF II

(Dollars in Millions)

	Amount	Allocation	Current Year Return	Prior Year Return	Benchmark Return
Investment Class					
Short-Term Investments	$33.0	11.4%	5.2%	4.5%	N/A
Domestic Equity	87.1	30.2	20.5	8.4	20.3%
International Equity	54.0	18.7	28.0	26.8	27.8
Domestic Debt Securities	89.6	31.1	6.5	(6.0)	6.5
Real Estate	24.8	8.6	11.9	21.7	11.7
Total or Overall Return	**$288.5**	**100.0%**	**15.8%**	**7.8%**	**15.9%**

plan. Without the State General Fund augmentation, the JRF will not be able to pay the accumulated benefit payments due in 2008.

Investments

The JRF invests only in short-term securities. Total JRF investments were $10.0 million at June 30, 2007, which was $5.0 million less than the $15.0 million in total JRF investments at June 30, 2006. The decrease in total JRF investments was primarily due to an increase in total benefit payments. Short-term investments returned approximately 5.3 percent for fiscal year 2007, compared with the 4.4 percent for fiscal year 2006.

Judges' Retirement Fund II (JRF II)

Plan Net Assets

The JRF II provides retirement benefits to California Supreme and Appellate Court Justices, Superior Court Judges, and Municipal Court Judges first appointed or elected after November 9, 1994. The JRF II net assets held in trust for benefits at June 30, 2007 were $290.7 million, an increase of $71.7 million (32.8 percent) from June 30, 2006.

Additions to JRF II net assets held in trust for benefits include employer and member contributions, as well as investment income. Employer and member contributions increased $5.1 million (15.2 percent), to $38.8 million for the 2007 fiscal year, from $33.7 million for the 2006 fiscal year, primarily as a result of a 10.1 percent increase in membership from 2006 to 2007. For the 2007 fiscal year, the JRF II earned net investment income of $35.4 million, an increase in income of approximately $19.9 million (128.4 percent) from the 2006 fiscal year net investment income of $15.5 million, primarily due to strong returns from equity investments as well as stable earnings from fixed income investments.

Deductions in JRF II net assets held in trust for benefits are primarily composed of retirement, death, and survivor benefits. For the 2007 fiscal year, these benefits amounted to $1.0 million, an increase of $146,000 (17.0 percent) from the 2006 fiscal year.

On a per member and beneficiary basis, the cost of administering JRF II benefits during fiscal year 2007 was approximately $487 per individual, an increase of approximately $6 per individual from fiscal year 2006, due to increased membership and direct costs.

An actuarial valuation of the JRF II assets and benefit obligations is performed annually. At June 30, 2006, the date of the most recent actuarial valuation, the funded status of JRF II increased to 96.7 percent from 94.3 percent at June 30, 2005. At June 30, 2006, the JRF II actuarial benefit obligations exceeded its actuarial assets by approximately $7.2 million, while the amount by which the JRF II actuarial benefit obligations exceeded its actuarial assets at June 30, 2005, was approximately $10.2 million.

Investments

The JRF II invests mainly in domestic and international equity securities, domestic debt securities, and real estate equities. Total JRF II investments amounted to $288.5 million (see table on previous page) at June 30, 2007, which was $72.7 million (33.7 percent) more than the $215.8 million at June 30, 2006. The increase in total JRF II investments was primarily due to the increase in contributions and membership and positive investment returns during the 2007 fiscal year.

At June 30, 2007, the JRF II held $141.1 million in domestic and international equity securities, an increase of $25.0 million from $116.1 million at fiscal year end 2006. Domestic and international equity securities yielded returns of approximately 20.5 percent and 28.0 percent for fiscal year 2007, compared to the 8.4 percent and 26.8 percent for fiscal year 2006. CalPERS benchmark returns for fiscal year 2007 were 20.3 percent and 27.8 percent. CalPERS uses the Custom S&P 500 Index and MSCI EAFE Index to provide a benchmark for our domestic and international equity investment returns. These benchmarks are representative of the returns that could be expected in a similar investing environment, and reflect the overall market characteristics.

At June 30, 2007, the JRF II held $89.6 million in domestic debt securities, an increase of $16.6 million from $73.0 million at fiscal year end 2006. Domestic debt securities returned approximately 6.5 percent for the 2007 fiscal year, compared to negative 6.0 percent for fiscal year 2006. CalPERS benchmark return for fiscal year 2007 was 6.5 percent. CalPERS uses the Citigroup Large Pension Fund

Index to provide a benchmark for our fixed income investment returns. This benchmark is representative of the returns that could be expected in a similar investing environment.

At June 30, 2007, the JRF II held $32.9 million in short-term investments, an increase of $26.8 million from $6.1 million at fiscal year end 2006. Short-term investments returned approximately 5.2 percent for fiscal year 2007, compared to 4.5 percent for fiscal year 2006.

Volunteer Firefighters' Fund (VFF)

Plan Net Assets

The VFF provides monetary awards to volunteer firefighters. The VFF net assets held in trust for benefits at June 30, 2007 were $4.0 million, an increase of approximately $0.6 million (17.6 percent), from $3.4 million at June 30, 2006.

Contribution revenues totaled $328,000 for the 2007 fiscal year, an increase of 6.8 percent from the 2006 fiscal year, due primarily to an increase lump sum purchases of prior service credits. Net investment income was $470,000 for fiscal year 2007, an increase in investment income of 64.9 percent from the $285,000 in net investment income for fiscal year 2006. The increase is attributed to strong domestic and international equity markets.

Deductions from VFF net assets held in trust include awards of $120,000 for fiscal year 2007, an increase of 16.5 percent from the 2006 fiscal year, primarily due to more participants qualifying and taking awards earlier.

On a per member and beneficiary basis, the cost of administering the VFF benefits during fiscal year 2007 were approximately $28 per individual, an increase of approximately $1 per individual from fiscal year 2006. The increase was due to increased direct expenses.

An actuarial valuation of the VFF assets and benefit obligations is performed annually. At June 30, 2006, the date of the most recent actuarial valuation, the funded status of the VFF decreased to 87.1 percent from 88.0 percent at June 30, 2005. At June 30, 2006, the VFF actuarial benefit obligations exceeded its actuarial assets by $531,000, compared to $439,000 at June 30, 2005.

Investments

The VFF invests mainly in domestic equity securities, international equity securities, domestic debt securities, and real estate equities. Total VFF investments were $3.5 million at June 30, 2007, which was $0.5 million (16.7 percent) more than the $3.0 million at June 30, 2006.

At June 30, 2007, the VFF held $1.9 million in domestic and international equity securities, an increase of $0.2 million from the $1.7 million at fiscal year end 2006. Domestic equity securities experienced a return of approximately 20.0 percent for fiscal year 2007, compared to the 9.5 percent for fiscal year 2006. International equity experienced a return of approximately 26.1 percent for fiscal year 2007, compared to 26.7 percent in fiscal year 2006. CalPERS benchmark return for fiscal year 2007 was 20.1 percent for domestic equity securities and 27.0 percent for international equity securities. CalPERS uses the Russell 3000 Index to provide a benchmark for our domestic equity investment returns, and the MSCI EAFE Index for our international equity investment returns. This benchmark is representative of the returns that could be expected in a similar investing environment, and reflects the overall market characteristics.

Investments — VFF

	Amount	Allocation	Current Year Return	Prior Year Return	Benchmark Return
Investment Class					
Domestic Equity	$1.2	34.3%	20.0%	9.5%	20.1%
International Equity	0.7	20.0	26.1	26.7	27.0
Domestic Debt Securities	1.3	37.1	5.9	(1.6)	6.5
Real Estate	0.3	8.6	11.9	21.5	11.7
Total or Overall Return	**$3.5**	**100.0%**	**15.4%**	**10.3%**	**15.5%**

At June 30, 2007, the VFF held $1.3 million in domestic debt securities, an increase of $0.2 million from $1.1 million at fiscal year end 2006. Domestic debt securities returned approximately 5.9 percent for the 2007 fiscal year, compared to the negative 1.6 percent for fiscal year 2006. CalPERS benchmark return for fiscal year 2007 was 6.5 percent. CalPERS uses the Citigroup Large Pension Fund Index to provide a benchmark for our fixed income investment returns. This benchmark is representative of the returns that could be expected in a similar investing environment.

Other Post-Employment Benefit Fund

California Employers' Retiree Benefit Trust Fund

Plan Net Assets

The CERBTF is a trust for the pre-funding by employers of health, dental and other non-pension benefits promised employees when they retire. The CERBTF net assets held in trust for benefits on June 30, 2007 were $11.4 million. This is the first year the CERBTF existed, so a prior year comparison is not available.

Net Assets — Other Post-Employment Benefit Fund

(Dollars in Thousands)

	CERBTF	
	2007	**2006**
Assets		
Cash, Cash Equivalents & Receivables	$5,469	$ —
Investments	5,971	—
Total Assets	**$11,440**	**$ —**
Total Liabilities	**$ —**	**$ —**
Total Net Assets	**$11,440**	**$ —**

Changes in Net Assets — Other Post-Employment Benefit Fund

(Dollars in Thousands)

	CERBTF	
	2007	**2006**
Additions		
Member Contributions	$ —	$ —
Employer Contributions	11,469	—
Investment Income	(29)	—
Other Income	—	—
Total Additions	**$11,440**	**$ —**
Deductions		
Benefits	$ —	$ —
Refund of Contributions	—	—
Administrative Expenses	—	—
Other Expenses	—	—
Total Deductions	**$ —**	**$ —**
Increase (Decrease) in Net Assets	**$11,440**	**$ —**

Net Assets — Defined Contribution Pension Plan Funds

(Dollars in Thousands)

	SPOFF		IRC 457		RBF		SCPF	
	2007	2006	2007	2006	2007	2006	2007	2006
Assets								
Cash, Cash Equivalents & Receivables	$4,221	$753	$3,246	$1,893	$160	$46	$32	$35
Investments	331,480	258,824	681,099	538,644	1,227	881	23,338	20,817
Total Assets	**$335,701**	**$259,577**	**$684,345**	**$540,537**	**$1,387**	**$927**	**$23,370**	**$20,852**
Total Liabilities	**$323**	**$132**	**$1,722**	**$404**	**$1,076**	**$818**	**$32**	**$61**
Total Net Assets	**$335,378**	**$259,445**	**$682,623**	**$540,133**	**$311**	**$109**	**$23,338**	**$20,791**

Changes in Net Assets — Defined Contribution Pension Plan Funds

(Dollars in Thousands)

	SPOFF		IRC 457		RBF		SCPF	
	2007	2006	2007	2006	2007	2006	2007	2006
Additions								
Member Contributions	$ —	$ —	$104,956	$123,161	$ —	$ —	$457	$634
Employer Contributions	48,948	8,933	—	—	2,209	1,536	—	—
Investment Income	37,813	16,517	80,167	36,245	50	27	3,619	1,782
Other Income	—	—	14	8	—	—	389	—
Total Additions	**$86,761**	**$25,450**	**$185,137**	**$159,414**	**$2,259**	**$1,563**	**$4,465**	**$2,416**
Deductions								
Retirement Benefits	$10,828	$6,578	$ —	$ —	$2,057	$1,527	$ —	$ —
Administrative Expenses	—	—	—	—	—	—	—	79
Participant Withdrawals	—	—	42,647	62,078	—	—	1,918	2,078
Total Deductions	**$10,828**	**$6,578**	**$42,647**	**$62,078**	**$2,057**	**$1,527**	**$1,918**	**$2,157**
Increase in Net Assets	**$75,933**	**$18,872**	**$142,490**	**$97,336**	**$202**	**$36**	**$2,547**	**$259**

Additions to the CERBTF net assets held in trust for benefits include employer contributions and investment income. The fund became available to employers the last few months of the fiscal year. The two employers participating contributed $11.5 million. For the last six weeks of the 2007 fiscal year, during which the CERBTF existed, the fund incurred a net investment loss of $29,000, primarily due to equity market declines at the end of the fiscal year.

During the 2007 fiscal year there were no CERBTF deductions. Plan benefit obligations are anticipated to become payable in future years.

Investments

The CERBTF invests mainly in domestic equity and debt securities. Total CERBTF investments amounted to $6.0 million at fiscal year end. At June 30, 2007 the CERBTF owned $4.4 million of domestic equity securities and $1.5 million of domestic debt securities. Short-term domestic securities of $.1 million comprised the remainder of investments. The fund also held $5.5 million of cash.

Defined Contribution Pension Plans

State Peace Officers' & Firefighters' Defined Contribution Plan Fund (SPOFF)

Plan Net Assets

The SPOFF provides supplemental retirement benefits to eligible safety employees. Net assets held in trust for pension benefits increased by $75.9 million (29.2 percent) to $335.4 million at June 30, 2007, from $259.5 million at June 30, 2006.

Contribution revenues were $48.9 million for fiscal year 2007, an increase of 447.9 percent from fiscal year 2006. The large increase to contribution revenues in fiscal year 2007 was due to renegotiations in the bargaining unit contract whereby rank and file staff returned to the Program. For fiscal year 2006, contributions were made on behalf of management/supervisors only. Net investment income was $37.8 million for fiscal year 2007, representing an increase in investment income of $21.3 million from the $16.5 million in net investment income for the 2006 fiscal year.

SPOFF benefit expenses were $10.8 million for the 2007 fiscal year, an increase of $4.2 million (64.6 percent) from the 2006 fiscal year, due primarily to the increase in the number of retired SPOFF participants in 2007.

Investments

The SPOFF invests mainly in domestic equity securities. Total SPOFF investments were $331.5 million at June 30, 2007, which was $72.7 million (28.1 percent) more than the $258.8 million in total SPOFF investments at June 30, 2006. Domestic equity securities yielded returns of approximately 14.0 percent for fiscal year 2007, compared to 6.9 percent for fiscal year 2006. CalPERS benchmark return for fiscal year 2007 was 15.0 percent. CalPERS uses a composite index to provide a benchmark for our domestic equity investment return.

Public Agency Deferred Compensation Plan (IRC 457)

Plan Net Assets

The CalPERS Board is trustee for public agency participant assets in the IRC 457 deferred compensation program. Net assets held in trust for pension benefits at June 30, 2007,

Investments — SCPF

(Dollars in Millions)

Investment Class	Amount	Allocation	Current Year Return	Prior Year Return	Benchmark Return
Short-Term Investments	$0.6	2.5%	5.3%	3.1%	N/A%
Domestic Equity	12.2	52.4	20.5	8.6	20.3
International Equity	4.5	19.3	28.0	26.5	27.8
Domestic Debt Securities	6.0	25.8	11.3	(3.1)	6.5
Total or Overall Return	**$23.3**	**100.0%**	**17.5%**	**8.3%**	**17.8%**

were $682.6 million, an increase of $142.5 million (26.4 percent), from $540.1 million at June 30, 2006.

Additions to IRC 457 net assets consist of member contributions of $105.0 million in fiscal year 2007, compared to $123.2 million in 2006. The decrease is primarily due to a decrease in members' choice to contribute less. Net investment income amounted to $80.2 million for fiscal year 2007, representing an increase in investment income of $44.0 million from the $36.2 million in net investment income for fiscal year 2006.

Deductions from the IRC 457 net assets consist primarily of participant withdrawals of $42.6 million, a decrease of $19.5 million from the prior fiscal year of $62.1 million.

Investments

The IRC 457 investments were $681.1 million at June 30, 2007, which was $142.5 million more than the $538.6 million in total IRC 457 investments at June 30, 2006. IRC 457 asset allocation is participant directed.

At June 30, 2007, the IRC 457 held $524.7 million in domestic and international equity securities, an increase of $126.6 million from $398.1 million at fiscal year end 2006.

At June 30, 2007, the IRC 457 held $152.2 million in domestic debt securities, an increase of $54.8 million from $97.4 million at fiscal year end 2006.

At June 30, 2007, the IRC 457 held $4.3 million in short-term investments, a decrease of $38.8 million from $43.1 million at fiscal year end 2006.

Replacement Benefit Fund (RBF)

The RBF provides replacement retirement benefits to the small percentage of retired PERF members whose CalPERS retirement benefits earned are limited by Internal Revenue Code Section 415(b). Net assets held in trust for pension benefits increased by $202,000 to $311,000 at June 30, 2007, from $109,000 at June 30, 2006.

Contribution revenues were $2.2 million for the 2007 fiscal year, an increase of $0.7 million from the 2006 fiscal year, primarily due to an increase in the number of retirees to 117 at June 30, 2007, from 91 at June 30, 2006.

The RBF paid benefits of $2.1 million for the 2007 fiscal year, an increase of $0.6 million from fiscal year 2006, primarily due to more members being eligible.

Investments

The RBF invests only in short-term securities. Total RBF investments were $1.2 million at June 30, 2007, which was $319,000 more than the $881,000 in total RBF investments at June 30, 2006. Short-term investments returned approximately 5.2 percent for fiscal year 2007, compared to 4.5 percent for fiscal year 2006.

Supplemental Contributions Program Fund (SCPF)

The SCPF was established effective January 1, 2000, to provide supplemental retirement benefits to members of CalPERS and is entirely member funded. Net assets held in trust for pension benefits increased to $23.3 million at June 30, 2007.

Contribution revenues were $457,000 for the 2007 fiscal year, a decrease of 27.9 percent from the 2006 fiscal year, primarily due to a decline in membership. Net investment income was $3.6 million for fiscal year 2007, representing an increase in investment income of $1.8 million from $1.8 million in net investment income for fiscal year 2006.

For fiscal year 2007, participant withdrawals were $1.9 million, a decrease of $0.2 million (7.7 percent) from fiscal year 2006.

Investments

The SCPF investments were $23.3 million at June 30, 2007, which was $2.5 million more than the $20.8 million in total SCPF investments at June 30, 2006.

At June 30, 2007, the SCPF held $16.7 million in domestic and international equity securities, an increase of $1.7 million from $15.0 million at fiscal year end 2006. Domestic and international equity securities yielded returns of approximately 20.5 percent and 28.0 percent for fiscal year 2007, compared to the 8.6 percent and 26.5 percent for fiscal year 2006. CalPERS benchmark returns for fiscal year 2007 were 20.3 percent and 27.8 percent. CalPERS uses the Custom S&P 500 Index and MSCI EAFE Index to provide a benchmark for our domestic and international

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Net Assets — Enterprise Funds

(Dollars in Thousands)

	HCF		CRF		LTCF		DCF	
	2007	2006	2007	2006	2007	2006	2007	2006
Assets								
Cash, Cash Equivalents & Receivables	$67,420	$51,693	$28,118	$7,113	$23,924	$19,238	$799	$1,337
Investments	577,820	438,550	109,226	56,581	2,205,350	1,786,622	3,958	4,665
Total Assets	**$645,240**	**$490,243**	**$137,344**	**$63,694**	**$2,229,274**	**$1,805,860**	**$4,757**	**$6,002**
Total Liabilities	**$196,660**	**$165,074**	**$122,731**	**$54,015**	**$3,071,531**	**$2,577,358**	**$3,992**	**$4,526**
Total Unrestricted Net Assets (Deficit)	**$448,580**	**$325,169**	**$14,613**	**$9,679**	**$(842,257)**	**($771,498)**	**$765**	**$1,476**

Changes in Net Assets — Enterprise Funds

(Dollars in Thousands)

	HCF		CRF		LTCF		DCF	
	2007	2006	2007	2006	2007	2006	2007	2006
Revenues								
Self-Insurance Premiums	$1,390,819	$1,211,210	$ —	$ —	$241,495	$243,690	$ —	$ —
Investment Income	20,069	18,029	9,279	5,049	281,068	121,703	180	139
Administrative Fees & Other	—	—	16,509	13,140	—	—	595	1,742
Total Revenues	**$1,410,888**	**$1,229,239**	**$25,788**	**$18,189**	**$522,563**	**$365,393**	**$775**	**$1,881**
Expenses								
Claims Expenses	$1,198,348	$1,131,759	$ —	$ —	$87,324	$78,007	$ —	$ —
Increase (Decrease) in Estimated Liabilities	14,358	(340)	—	—	487,800	219,400	—	—
Administrative Expenses	74,771	67,679	20,854	16,356	18,198	17,053	1,486	1,338
Total Expenses	**$1,287,477**	**$1,199,098**	**$20,854**	**$16,356**	**$593,322**	**$314,460**	**$1,486**	**$1,338**
Increase (Decrease) in Unrestricted Net Assets	**$123,411**	**$30,141**	**$4,934**	**$1,833**	**($70,759)**	**$50,933**	**($711)**	**$543**

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equity investment returns, respectively.

At June 30, 2007, the SCPF held $6.0 million in domestic debt securities, an increase of $0.5 million from $5.5 million at fiscal year end 2006. Domestic debt securities returned approximately 11.3 percent for fiscal year 2007, compared to negative 3.1 percent for fiscal year 2006. CalPERS benchmark return for fiscal year 2007 was 6.5 percent. CalPERS uses the Citigroup 1-10 Year Treasury as a benchmark for its domestic debt security investment returns.

At June 30, 2007, the SCPF held $639,000 in short-term investments, an increase of $322,000 from $317,000 at fiscal year end 2006. Short-term investments returned approximately 5.3 percent for fiscal year 2007, which was an improvement over the 3.1 percent for fiscal year 2006.

Enterprise Funds

Employees' Health Care Fund (HCF)

Plan Activity

The HCF accounts for the activities of the CalPERS self-insured health care programs.

The self-insured health care programs incurred claims expenses of $1.2 billion for the 2007 fiscal year, an increase of 5.9 percent from the 2006 fiscal year, primarily due to increases in provider pricing and increased benefit utilization. Premium revenues were $1.4 billion for the 2007 fiscal year, an increase of 14.8 percent from the 2006 fiscal year, primarily as a result of premium rate increases and enrollment growth. Net investment income was $20.1 million for the 2007 fiscal year, an increase of 11.3 percent from the 2006 fiscal year. As a result of increased assets, unrestricted net assets increased by $123.4 million (38.0 percent) to $448.6 million at June 30, 2007.

Investments

Investments of the HCF at June 30, 2007 and 2006, include highly-liquid, short-term securities and domestic debt securities. Investments increased $139.2 million from $438.6 million at June 30, 2006, to $577.8 million at June 30, 2007.

Public Employees' Contingency Reserve Fund (CRF)

The CRF was established to fund administrative costs related to the CalPERS health care programs and to provide a contingency reserve for potential increases in future health care premium rates or health care benefit costs. In the 2007 fiscal year, pursuant to GASB Statement 43, activity in the CRF is reported in two separate fund types.

Administrative fees collected and related costs are accounted for in the CRF proprietary fund type. Administrative fees earned by the CRF were $16.1 million for the 2007 fiscal year, an increase of 26.6 percent from 2006 fiscal year of $12.8 million. The increase was due mainly to a premium rate and administrative rate increases during the 2007 fiscal year. Net investment income was $9.3 million for the 2007 fiscal year, an increase of 83.8 percent from the 2006 fiscal year. Unrestricted net assets increased by $4.9 million (51.0 percent) to $14.6 million at June 30, 2007.

Public agency health payments and remittances to contracted

Investments — LTCF

(Dollars in Millions)

Investment Class	Amount	Allocation	Current Year Return	Prior Year Return	Benchmark Return
Short-Term Investments	$1.3	0.1%	N/A	N/A	N/A
Domestic Equity	653.4	29.6	20.5 %	8.5%	20.3%
International Equity	448.0	20.3	27.2	26.8	27.8
Domestic Debt Securities	995.4	45.1	6.6	(4.8)	6.5
Real Estate	107.2	4.9	11.9	21.7	11.7
Total or Overall Return	**$2,205.3**	**100.0%**	**15.2%**	**7.1%**	**15.0%**

health care providers are reported in the CRF Agency Fund type. Public agencies remitted approximately $1.1 billion for payments to contracted health care providers in fiscal year 2007.

Investments

Investments of the CRF proprietary and agency activities at June 30, 2007 and 2006, included only highly-liquid, short-term securities, as investment balances are used to fund operating cash flows. Investments increased $52.6 million from $56.6 million at June 30, 2006 to $109.2 million at June 30, 2007 primarily due to the receipt of Medicare Part D funds.

Public Employees' Long-Term Care Fund (LTCF)

The LTCF, which provides long-term care insurance to participating members, incurred claims expenses of $87.3 million for the 2007 fiscal year, an increase of 11.9 percent from the 2006 fiscal year, due mainly to an increase in benefit utilization. Premium revenues were $241.5 million for the 2007 fiscal year, a decrease of 1.0 percent from the 2006 fiscal year. Net investment income amounted to $281.1 million for the 2007 fiscal year, an increase in investment income of 131.0 percent from the $121.7 million in net investment income for the 2006 fiscal year, due mainly to strong equity markets in 2007. The unrestricted net assets of the CalPERS Long-Term Care Program decreased by $70.8 million to negative $842.3 million during the 2007 fiscal year as a result of investment earnings and a larger increase in the estimated liability for future policy benefits. Earnings were offset by an increase in liabilities due to the significant growth of inflation-adjusted policies. The CalPERS Board of Administration increased premiums in the 2006-2007 fiscal year to eliminate future deficits. The LTCF is in the process of reviewing its current policies and exploring different options to address the deficit.

Investments

Total LTCF investments were $2.2 billion at June 30, 2007, which was $0.4 billion more than the $1.8 billion in total LTCF investments at June 30, 2006.

At June 30, 2007, the LTCF held $1.1 billion in domestic and international equity securities, an increase of $230.7 million from $870.7 million at fiscal year end 2006. Domestic and international equity securities experienced returns of approximately 20.5 percent and 27.2 percent for the 2007 fiscal year, compared to the 8.5 percent and 26.8 percent for fiscal year 2006. CalPERS benchmark returns for fiscal year 2007 were 20.3 percent and 27.8 percent. CalPERS uses the Custom S&P 500 Index and MSCI EAFE Index to provide a benchmark for our domestic and international equity investment returns. These benchmarks are representative of the returns that could be expected in a similar investing environment, and reflect the overall market environment.

At June 30, 2007, the LTCF held $995.4 million in domestic debt securities, an increase of $170.0 million from $825.4 million at fiscal year end 2006. Domestic debt securities returned approximately 6.6 percent, compared to a negative 4.8 percent for fiscal year 2006. CalPERS benchmark return for fiscal year 2007 was 6.5 percent. CalPERS uses the Citigroup Large Pension Fund Index to provide a benchmark for our fixed income investment returns. This benchmark is representative of the returns that could be expected in a similar investing environment, and reflects the overall market environment.

Public Employees' Retirement System Deferred Compensation Fund (DCF)

The purpose of the DCF is to maintain the financial records associated with the investment and administrative management services CalPERS offers to other governments' defined contribution plans. The fund recognizes as revenue fees charged other government clients for these services. The fund also records as expenses the costs incurred by CalPERS staff to support these services. Net income is retained in the fund balance to further expand the amount and types of deferred compensation plan management services. Fees are assessed to the State Savings Plus Program to manage one plan option, and certain investment portfolios of the IRC 457 public agency program.

The DCF reported administrative and investment management revenues of $0.6 million for the 2007 fiscal year, which is $1.1 million less than the $1.7 million for the 2006 fiscal year. Expenses necessary to support these services were $1.5 million for the 2007 fiscal year, which was a 11.1 percent increase from the 2006 fiscal year. Net income in fiscal year 2007 from investment of the DCF fund balance was $180,000, an increase of 29.5 percent from the 2006 fiscal year, due mainly to more fees earned. Unrestricted net assets decreased by $0.7 million (48.2 percent) to $0.8 million at June 30, 2007.

Investments

Investments of the DCF at June 30, 2007 and 2006, included only highly-liquid, short-term securities. Investments decreased $0.7 million from $4.7 million at June 30, 2006, to $4.0 million at June 30, 2007.

Requests For Information

This Financial Report is designed to provide a general overview of CalPERS finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the CalPERS Fiscal Services Division, P.O. Box 942703, Sacramento, CA, 94229-2703, or by calling 888 CalPERS (or 888-225-7377).

Basic Financial Statements

Statement of Fiduciary Net Assets — Fiduciary Funds

As of June 30, 2007 (with Comparative Totals as of June 30, 2006)

(Dollars in Thousands)

	Pension Trust Funds					
	PERF	LRF	JRF	JRF II	VFF	SPOFF
Assets						
Cash & Cash Equivalents	**$319,009**	**$621**	**$172**	**$ —**	**$99**	**$ —**
Receivables						
Member, Public Agency, State & School	$1,711,459	$37	$1,619	$2,072	$361	$4,181
Investment Sales & Other	3,102,260	—	—	—	—	—
Interest & Dividends	708,622	—	209	369	4	40
Due from Other Funds	9,502	10	18	43	6	—
Due from Federal Government	—	—	—	—	—	—
Other Program	11,569	—	—	1	—	—
Total Receivables	**$5,543,412**	**$47**	**$1,846**	**$2,485**	**$371**	**$4,221**
Investments, at Fair Value						
Short-Term Investments:						
Domestic	$3,110,919	$47	$10,024	$32,938	$20	$4,567
International	466,201	—	—	—	—	—
Securities Lending Collateral	46,337,538	—	—	—	—	—
Equity Securities:						
Domestic	100,591,499	42,553	—	87,124	1,188	326,913
International	49,113,002	14,708	—	53,976	721	—
Debt Securities:						
Domestic	55,544,713	84,503	—	89,646	1,293	—
International	5,674,194	—	—	—	—	—
Real Estate Equities:	37,013,773	—	—	24,807	318	—
Debt on Real Estate Equities	(16,939,148)	—	—	—	—	—
Alternative Investments	16,821,589	—	—	—	—	—
Total Investments	**$297,734,280**	**$141,811**	**$10,024**	**$288,491**	**$3,540**	**$331,480**
Capital Assets, at Cost, Net of Accumulated Depreciation, & Other Assets	**$397,813**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Total Assets	**$303,994,514**	**$142,479**	**$12,042**	**$290,976**	**$4,010**	**$335,701**
Liabilities						
Retirement & Other Benefits in Process of Payment	$210,950	$199	$4	$ —	$ —	$ —-
Investment Purchases & Other	5,707,472	—	—	—	—	—
Due to State of California	1,806	—	—	—	—	—
Securities Lending Obligation	46,337,538	—	—	—	—	—
Due to Other Funds	77	39	83	54	14	—
Other Program	613,989	32	282	190	—	323
Total Liabilities	**$52,871,832**	**$270**	**$369**	**$244**	**$14**	**$323**
Net Assets Held in Trust for Pension & Postemployment Healthcare Benefits (see Required Supplemental Schedules of Funding Progress)	**$251,122,682**	**$142,209**	**$11,673**	**$290,732**	**$3,996**	**$335,378**

The accompanying notes are an integral part of these financial statements.

Statement of Fiduciary Net Assets — Fiduciary Funds (continued)

As of June 30, 2007 (with Comparative Totals as of June 30, 2006)

(Dollars in Thousands)

Pension Trust Funds			Post-Employment Healthcare Trust Fund	Agency Funds			Totals	
IRC 457	RBF	SCPF	CERBTF	CRF	SDF	OASI	2007	2006
$ —	**$1**	**$1**	**$5,469**	**$ —**	**$ —**	**$5,859**	**$331,231**	**$403,779**
$ —	$140	$28	$ —	$88,034	$ —	$ —	$1,807,931	$1,673,844
—	—	—	—	—	—	—	3,102,260	1,511,344
666	19	3	—	—	—	—	709,932	771,969
—	—	—	—	—	—	—	9,579	3,498
—	—	—	—	—	—	—	—	27,340
2,580	—	—	—	—	—	—	14,150	12,143
$3,246	**$159**	**$31**	**$ —**	**$88,034**	**$ —**	**$—**	**$5,643,852**	**$4,000,138**
$4,289	$1,227	$639	$54	$136,882	$ —	$ —	$3,301,606	$2,291,152
—	—	—	—	—	—	—	466,201	759,809
—	—	—	—	—	—	—	46,337,538	38,011,353
480,395	—	12,179	4,428	—	—	—	101,546,279	85,773,501
44,255	—	4,526	—	—	—	—	49,231,188	44,957,336
152,160	—	5,994	1,489	—	—	—	55,879,798	46,770,959
—	—	—	—	—	—	—	5,674,194	5,511,716
—	—	—	—	—	—	—	37,038,898	28,699,875
—	—	—	—	—	—	—	(16,939,148)	(13,448,078)
—	—	—	—	—	—	—	16,821,589	12,045,147
$681,099	**$1,227**	**$23,338**	**$5,971**	**$136,882**	**$ —**	**$ —**	**$299,358,143**	**$251,372,770**
$ —	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$397,813**	**$391,636**
$684,345	**$1,387**	**$23,370**	**$11,440**	**$224,916**	**$**	**$5,859**	**$305,731,039**	**$256,168,323**
$ —	$7	$ —	$ —	$224,916	$ —	$ —	$436,076	$384,339
—	—	10	—	—	—	—	5,707,482	4,787,920
—	—	—	—	—	—	5,772	7,578	7,271
—	—	—	—	—	—	—	46,337,538	38,011,353
—	—	—	—	—	—	87	354	417
1,722	1,069	22	—	—	—	—	617,629	591,807
$1,722	**$1,076**	**$32**	**$ —**	**$224,916**	**$ —**	**$5,859**	**$53,106,657**	**$43,783,107**
$682,623	**$311**	**$23,338**	**$11,440**	**$ —**	**$ —**	**$ —**	**$252,624,382**	**$212,385,216**

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Fiduciary Net Assets — Fiduciary Funds

For the Year Ended June 30, 2007 (with Comparative Total as for the Year Ended June 30, 2006)

(Dollars in Thousands)

	Pension Trust Funds								
	PERF	**LRF**	**JRF**	**JRF II**	**VFF**	**SPOFF**	**IRC 457**	**RBF**	**SCPF**
Additions									
Retirement Contributions									
Members	$3,262,699	$129	$10,398	$11,694	$ —	$ —	$104,956	$ —	$457
Employers	6,442,384	—	10,914	27,062	328	48,948	—	2,209	—
State of California General Fund	—	—	120,458	—	—	—	—	—	—
Employer Contributions - OPEB	—	—	—	—	—	—	—	—	—
Total Retirement and OPEB Contributions	**$9,705,083**	**$129**	**$141,770**	**$38,756**	**$328**	**$48,948**	**$104,956**	**$2,209**	**$457**
Investment Income									
Net Appreciation (Depreciation) in Fair Value of Investments	$35,682,869	$16,521	$ —	$33,564	$365	$39,768	$72,741	$ —	$3,604
Interest	2,223,978	6	1,186	798	1	156	4,949	50	15
Dividends	2,247,030	—	—	1,062	104	—	864	—	—
Real Estate	2,265,695	—	—	—	—	—	—	—	—
Alternative Investments	231,302	—	—	—	—	—	—	—	—
Other Income	394,841	—	—	—	—	—	4,405	—	—
Securities Lending Income	2,336,561	3	—	3	—	—	—	—	—
Less Investment Expenses:									
Costs of Lending	(2,181,828)	—	—	—	—	—	—	—	—
Real Estate	(1,698,048)	—	—	—	—	—	—	—	—
Other	(754,139)	—	—	—	—	(2,111)	(2,792)	—	—
Net Investment Income	**$40,748,261**	**$16,530**	**$1,186**	**$35,427**	**$470**	**$37,813**	**$80,167**	**$50**	**$3,619**
Other Income	**$9,119**	**$ —**	**$2,591**	**$ —**	**$ —**	**$ —**	**$14**	**$ —**	**$ 389**
Total Additions	**$50,462,463**	**$16,659**	**$145,547**	**$74,183**	**$798**	**$86,761**	**$185,137**	**$2,259**	**$4,465**
Deductions									
Retirement, Death & Survivor Benefits	$10,070,555	$7,666	$151,059	$1,005	$120	$10,828	$ —	$2,057	$ —
Refund of Contributions	181,574	92	—	981	—	—	—	—	—
Administrative Expenses	278,453	323	701	451	116	—	—	—	
Participant Withdrawals	—	—	—	—	—	—	42,647	—	1,918
Other Expenses	—	—	—	—	—	—	—	—	—
Total Deductions	**$10,530,582**	**$8,081**	**$151,760**	**$2,437**	**$236**	**$10,828**	**$42,647**	**$2,057**	**$1,918**
Increase (Decrease) in Net Assets	**$39,931,881**	**$8,578**	**($6,213)**	**$71,746**	**$562**	**$75,933**	**$142,490**	**$202**	**$2,547**
Net Assets Held in Trust for Pension and Post-Employment Healthcare Benefits Beginning of Year	**$211,190,801**	**$133,631**	**$17,886**	**$218,986**	**$3,434**	**$259,445**	**$540,133**	**$109**	**$20,791**
End of Year	**$251,122,682**	**$142,209**	**$11,673**	**$290,732**	**$3,996**	**$335,378**	**$682,623**	**$311**	**$23,338**

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Fiduciary Net Assets — Fiduciary Funds (continued)

For the Year Ended June 30, 2007 (with Comparative Totals for the Year Ended June 30, 2006)

(Dollars in Thousands)

Post-Employment Healthcare Trust Fund	Totals	
CERBTF	2007	2006
$ —	$3,390,333	$3,224,733
—	6,531,845	6,141,283
—	120,458	109,167
11,469	11,469	—
$11,469	**$10,054,105**	**$9,475,183**
($33)	$35,849,399	$16,690,079
4	2,231,143	2,582,816
—	2,249,060	2,508,936
—	2,265,695	1,221,640
—	231,302	222,944
—	399,246	767,421
—	2,336,567	1,678,675
—	(2,181,828)	(1,520,214)
—	(1,698,048)	(1,113,038)
—	(759,042)	(922,897)
($29)	**$40,923,494**	**$22,116,362**
$ —	**$12,113**	**$2,882**
$11,440	$50,989,712	$31,594,427
$ —	$10,243,290	$9,386,042
—	182,647	172,825
—	280,044	237,263
—	243,732	64,156
—	—	14,044
$ —	$10,750,157	$9,874,330
$11,440	**$40,239,166**	**$21,720,097**
$ —	**$212,385,216**	**$190,665,119**
$11,440	$252,624,382	$212,385,216

Statement of Net Assets — Proprietary Funds

DRAFT

As of June 30, 2007 (with Comparative Totals as of June 30, 2006)

(Dollars in Thousands)

	Enterprise Funds				Totals	
	HCF	CRF	LTCF	DCF	2007	2006
Assets						
Current Assets						
Cash & Cash Equivalents	**$30**	**$14,087**	**$1,635**	**$ —**	**$15,752**	**$6,079**
Receivables						
Member, Public Agency, State & School	$14,273	$271	$22,278	$ —	$36,822	$22,308
Interest & Dividends	2,862	2,949	11	16	5,838	6,006
Management Fees	—	—	—	783	783	1,319
Due from Other Funds	49,459		—	—	49,459	43,667
Due from Federal Government	—	10,811	—	—	10,811	—
Other	796	—	—	—	796	2
Total Receivables	**$67,390**	**$14,031**	**$22,289**	**$799**	**$104,509**	**$73,302**
Investments, at Fair Value						
Short-Term Investments:						
Domestic	$225,221	$109,226	$1,379	$3,958	$339,784	$464,816
Equity Securities:						
Domestic	—	—	653,385	—	653,385	520,583
International	—	—	448,009	—	448,009	350,090
Debt Securities:						
Domestic	352,599	—	995,400	—	1,347,999	861,208
Real Estate Equities	—	—	107,177	—	107,177	89,721
Total Investments	**$577,820**	**$109,226**	**$2,205,350**	**$3,958**	**$2,896,354**	**$2,286,418**
Total Assets	**$645,240**	**$137,344**	**$2,229,274**	**$4,757**	**$3,016,615**	**$2,365,799**
Liabilities						
Current Liabilities						
Insurance Premiums & Claims in Process of Payment	$14,019	$18	$7,193	$ —	$21,230	$16,486
Estimated Insurance Claims Due	173,422	—	114,885	—	288,307	267,448
Management Fees	—	—	—	2,507	2,507	1,973
Due to Other Funds	4,426	52,215	558	1,485	58,684	46,746
Due to State & Public Agencies	727	—	—	—	727	—
Other	4,066	70,498	32,880	—	107,444	33,605
Total Current Liabilities	**$196,660**	**$122,731**	**$155,516**	**$3,992**	**$478,899**	**$366,258**
Long-Term Liabilities						
Estimated Liability for Future Policy Benefits	$ —	$ —	$2,916,015	$ —	$2,916,015	$2,434,715
Total Long-Term Liabilities	**$ —**	**$ —**	**$2,916,015**	**$ —**	**$2,916,015**	**$2,434,715**
Total Liabilities	**$196,660**	**$122,731**	**$3,071,531**	**$3,992**	**$3,394,914**	**$2,800,973**
Total Unrestricted Net Assets (Deficit)	**$448,580**	**$14,613**	**($842,257)**	**$765**	**($378,299)**	**($435,174)**

The accompanying notes are an integral part of these financial statements.

Statement of Revenues, Expenses & Changes in Fund Net Assets — Proprietary Funds

For the Year Ended June 30, 2007 (with Comparative Totals for the Year Ended June 30, 2006)

(Dollars in Thousands)

	Enterprise Funds				Totals	
	HCF	CRF	LTCF	DCF	2007	2006
Operating Revenues						
Self-Insurance Premiums	$1,390,819	$ —	$241,495	$ —	$1,632,314	$1,454,900
Administrative Fees Earned	—	16,147	—	287	16,434	13,872
Investment Management Fees Earned	—	—	—	308	308	628
Other	—	362	—	—	362	382
Total Operating Revenues	**$1,390,819**	**$16,509**	**$241,495**	**$595**	**$1,649,418**	**$1,469,782**
Operating Expenses						
Claims Expenses	$1,198,348	$ —	$87,324	$ —	$1,285,672	$1,209,766
Increase in Estimated Liabilities	14,358	—	487,800	—	502,158	219,060
Administrative Expenses	74,771	20,854	18,198	1,486	115,309	102,426
Total Operating Expenses	**$1,287,477**	**$20,854**	**$593,322**	**$1,486**	**$1,903,139**	**$1,531,252**
Operating Income (Loss)	**$103,342**	**($4,345)**	**($351,827)**	**($891)**	**($253,721)**	**($61,470)**
Non-Operating Revenues						
Net Appreciation in Fair Value of Investments	$2,009	$ —	$273,275	$ —	$275,284	$108,737
Interest, Dividends & Other Investment Income	18,060	9,279	7,793	180	35,312	36,183
Total Non-Operating Revenues	**$20,069**	**$9,279**	**$281,068**	**$180**	**$310,596**	**$144,920**
Change in Unrestricted Net Assets	**$123,411**	**$4,934**	**($70,759)**	**($711)**	**$56,875**	**$83,450**
Total Unrestricted Net Assets (Deficit)						
Beginning of Year	**$325,169**	**$9,679**	**($771,498)**	**$1,476**	**($435,174)**	**($518,624)**
End of Year	**$448,580**	**$14,613**	**($842,257)**	**$765**	**($378,299)**	**($435,174)**

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows — Proprietary Funds

For the Year Ended June 30, 2007 (with Comparative Totals for the Year Ended June 30, 2006)

(Dollars in Thousands)

	Enterprise Funds				Totals	
	HCF	CRF	LTCF	DCF	2007	2006
Cash Flows From Operating Activities						
Self-Insurance Premiums Collected	$1,379,993	$ —	$236,414	$ —	$1,616,407	$1,454,553
Claims Paid	(1,185,536)	—	(86,184)	—	(1,271,720)	(1,218,665)
Other (Payments) Receipts	(76,943)	54,955	(12,965)	(888)	(35,841)	(160,505)
Net Cash Provided (Used) by Operating Activities	**$117,514**	**$54,955**	**$137,265**	**$(888)**	**$308,846**	**$75,383**
Cash Flows From Investing Activities						
Net Purchases of Investments	($314,740)	$ —	($144,944)	$ —	($459,684)	($45,206)
Net Change in Short-Term Investments	177,480	(52,645)	(509)	706	125,032	(59,955)
Interest & Dividends Received	19,776	7,728	7,793	182	35,479	33,984
Net Cash (Used) Provided by Investing Activities	**($117,484)**	**($44,917)**	**($137,660)**	**$888**	**($299,173)**	**($71,177)**
Net Increase (Decrease) in Cash & Cash Equivalents	$30	$10,038	($395)	$ —	$9,673	$4,205
Cash & Cash Equivalents, Beginning of Year	**$ —**	**$4,049**	**$2,030**	**$ —**	**$6,079**	**$1,874**
Cash & Cash Equivalents, End of Year	**$30**	**$14,087**	**$1,635**	**$ —**	**$15,752**	**$6,079**
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities						
Operating Income (Loss)	$103,342	($4,345)	($351,827)	($891)	($253,721)	($61,470)
Estimated Insurance Claims Due to Health Care Providers	14,359	—	—	—	14,359	(341)
Changes in Assets & Liabilities:						
Receivables:						
Member, Public Agency, State & School	(10,826)	1,393	(5,081)	—	(14,514)	(12,209)
Due from Other Funds	(5,792)	—	—	—	(5,792)	(4,294)
Due from Federal government	—	(10,811)	—	—	(10,811)	—
Other	(796)	2	—	536	(258)	96
Insurance Premiums & Claims in Process of Payment	12,812	(9,208)	1,140	—	4,744	10,929
Liability for Future Policy Benefits	—	—	487,800	—	487,800	219,400
Due to Other Funds	5,153	8,623	(43)	(1,067)	12,666	1,007
Other	(738)	69,301	5,276	534	74,373	(77,735)
Net Cash Provided (Used) by Operating Activities	**$117,514**	**$54,955**	**$137,265**	**($888)**	**$308,846**	**$75,383**
Noncash Investing, Capital & Financing Activities						
Noncash Change in Fair Value of Investments in Securities	**$2,548**	**$ —**	**$154,460**	**$ —**	**$157,008**	**$108,671**

The accompanying notes are an integral part of these financial statements.

1. General Description of the Plan

General

The State Employees' Retirement System, the predecessor to the Public Employees' Retirement System of the State of California (CalPERS), or the "System," was created after voters approved a constitutional amendment authorizing legislation to establish a pension system for State employees. Such legislation became effective January 1, 1932. CalPERS has expanded to include, among others, employees of local agencies which elect to participate in the System. The Board of Administration (Board) of CalPERS administers a total of 17 funds, including five defined benefit retirement plans: the Public Employees' Retirement Fund (PERF), the Legislators' Retirement Fund (LRF), the Judges' Retirement Fund (JRF), the Judges' Retirement Fund II (JRF II), and the Volunteer Firefighters' Length of Service Award Fund (VFF); four defined contribution retirement plans: the State Peace Officers' and Firefighters' Defined Contribution Plan Fund (SPOFF), the Public Agency Deferred Compensation Program (IRC 457), the Replacement Benefit Fund (RBF), and the Supplemental Contributions Program Fund (SCPF); one defined benefit post-employment healthcare plan, the California Employers' Retirement Benefit Trust Fund (CERBTF); two health care plans: the Public Employees' Health Care Fund (HCF) and the Public Employees' Contingency Reserve Agency Fund (CRF); and four other plans: the Public Employees' Long-Term Care Fund (LTCF), the Public Employees' Deferred Compensation Fund (DCF), the Old Age & Survivors' Insurance Revolving Fund (OASI), and the Public Employees' Contingency Reserve Proprietary Fund (CRF). The Special Deposit Fund (SDF) was closed in the 2006-2007 fiscal year and all assets were transferred to the CRF Proprietary Fund.

Reporting Entity

The basic financial statements of CalPERS include fund financial statements reporting the financial activities of all of the above funds and assets under trust. The CalPERS Board of Administration has plenary authority and fiduciary responsibility for the investment of monies and the administration of the System pursuant to the State Constitution, Article XVI, Section 17. CalPERS is a unit of the State of California State and Consumer Services Agency; however, CalPERS is not subject to administrative direction by any department, commission, board, bureau, or agency of the State. As such, CalPERS is classified as a component unit of the State of California for financial reporting purposes, in accordance with the provisions of Governmental Accounting Standards Board Statement No. 39.

CalPERS financial statements are included in fiduciary and proprietary funds in the State of California Comprehensive Annual Financial Report.

Defined Benefit Pension Plans

The PERF, LRF, JRF, and JRF II are defined benefit pension plans which provide benefits based on members' years of service, age, final compensation, and benefit formula. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. California Government Code Section 50951 created the VFF as an award system that provides benefits based on members' years of service and age. VFF enrollment, receipt of an award, and service credit shall not be construed as a retirement, retirement allowance or benefit, or as retirement system service credit, respectively. However, for financial statement purposes, the VFF is included as part of the pension trust funds.

The State of California and 1,560 public agencies and schools (representing more than 2,600 entities) contribute to the PERF, JRF, and JRF II, which are agent multiple employer and cost-sharing defined benefit pension plans. CalPERS acts as the common investment and administrative agent for the member agencies, including schools (for classified employees). The LRF is a single-employer defined benefit pension plan for the State of California. The VFF is an agent multiple employer defined benefit pension plan with 47 participating fire departments. The VFF provides cities, counties, or districts that have fire departments with volunteer firefighting members the opportunity to offer such members an award for lifelong and faithful volunteer service.

Members of the PERF, LRF, JRF, and JRF II become fully vested in their retirement benefits earned to date after five years (10 years for State Second Tier members) of credited service. VFF members become vested after 10 years of credited service and are eligible to receive an award payment at age 60.

The PERF was established in 1932, the LRF in 1947, the JRF in 1937, JRF II in 1994, and the VFF in 1980. As of June 30, 2007, the number of affiliated employers for the PERF, LRF, JRF, JRF II, and VFF are as follows:

	2007
Public Employees' Retirement Fund	
State	1
School	61
Public Agency	1,499
Total Employers — Public Employees' Retirement Fund	**1,561**
Legislators' Retirement Fund	**1**
Judges' Retirement Fund	**59**
Judges' Retirement Fund II	**59**
Volunteer Firefighters' Award Fund	**47**

As of June 30, 2007, benefit recipients and members in the PERF, LRF, JRF, JRF II, and VFF consisted of the following:

	2007								
	PERF								
	State	School	Public Agency	Total PERF	LRF	JRF	JRF II	VFF	Total
Retirees	141,810	133,913	119,727	395,450	144	1,132	6	149	396,881
Survivors & Beneficiaries	24,345	19,087	16,326	59,758	125	570	5	3	60,461
Members									
Active	247,287	311,735	263,602	822,624	13	683	915	318	824,553
Inactive	81,148	97,940	85,188	264,276	33	73	—	3,749	268,131
Total	**494,590**	**562,675**	**484,843**	**1,542,108**	**315**	**2,458**	**926**	**4,219**	**1,550,026**

The membership consists of the following categories.

PERF

- *Safety* — includes California Highway Patrol, peace officers, firefighters, and other employees whose principal duties are in active law enforcement or fire prevention and suppression work, or who occupy positions designated by law as safety member positions.
- *Schools* — includes non-teaching, non-certificated school employees.
- *State Industrial* — includes all employees of the Department of Corrections and the California Youth Authority who are not safety members.
- *General* — includes all other members, defined by statute as "miscellaneous" members.

LRF

- State Legislators
- Constitutional Officers
- Legislative Statutory Officers

JRF

- *Judges* — includes Supreme Court, Courts of Appeal, and Superior Courts appointed or elected before November 9, 1994.

JRF II

- *Judges* — includes Supreme Court, Courts of Appeal and Superior Courts appointed or elected on or after November 9, 1994.

VFF

- Volunteer Firefighters

Financing

The benefits for the PERF, LRF, JRF, and JRF II are funded by contributions from members and employers, and earnings from investments. The benefits for the VFF are funded solely by contributions from employers and earnings from investments. Member and employer contributions for the PERF, LRF, JRF, and JRF II are a percentage of applicable member compensation. Member contribution rates for the PERF, LRF, JRF, and JRF II are defined by law and depend on the respective employer's benefit formulas. Employer contribution rates are determined by periodic actuarial valuations or by State statute. Actuarial valuations are based on the benefit formulas and employee groups of each employer. Employer contributions, including lump sum contributions made when agencies first join the Public Employees' Retirement Fund, are credited with a market value adjustment in determining contribution rates.

The required contribution rates of active plan members are based on a percentage of salary in excess of a base compensation amount ranging from $133 to $863 monthly. For the fiscal year ended June 30, 2007, the required contribution rates for active plan members are as follows.

PERF	
State Employees:	
Miscellaneous & Industrial	5% or 6%
Miscellaneous & Industrial — Second Tier	0%
Safety	6%
Peace Officers & Firefighters	8%
California Highway Patrol	8%
Classified School Employees	7%
Public Agency Employees	5% to 9%
LRF	0%
JRF	8%
JRF II	8%
VFF	Non-Contributory

These contributions are deposited in a fund established for each entity for the purpose of creating actuarial reserves for future benefits.

All employees in a covered class of employment who work on a half-time basis or more are eligible to participate in the retirement plans. CalPERS administers several different retirement plans, each providing a monthly allowance based on age, years of credited service, the benefit formula, and highest average compensation over an established period of one year to three years. For the VFF, highest average compensation is not a consideration in determining a monthly allowance. All plans provide death and disability benefits except the VFF, which does not provide disability benefits. Within the PERF, the benefit provisions for the

State and school employees are established by statute. The benefits for the public agencies are established by contract with the System, in accordance with the provisions of the Public Employees' Retirement Law. The benefits for the LRF are established in accordance with the provisions of the Legislators' Retirement Law. The benefits for the JRF are established in accordance with the provisions of the Judges' Retirement Law. The benefits for the JRF II are established in accordance with the provisions of the Judges' Retirement System II Law. The benefits for the VFF are established in accordance with the provisions of the Volunteer Firefighters' Length of Service Award Act.

In November 1990, Article IV, Section 4.5 was added to the State Constitution by adopting Proposition 140. This section effectively prohibited future Legislators from earning State retirement benefits for service in the Legislature on or after November 7, 1990, though it recognized vested pension benefits that had accrued before that date.

Due to the effects of Proposition 140, there are no current legislators eligible to participate in the Legislators' Retirement Fund. The only active members in the fund are Constitutional Officers (including the Insurance Commissioner and members of the Board of Equalization) and Legislative Statutory Officers.

Costs of administering the funds are financed through contributions and investment earnings of the funds.

Termination

Upon separation from the retirement plans, accumulated member contributions are refundable, with interest credited through the date of refund, as required by applicable laws. Withdrawal of such accumulated contributions results in forfeiture of the related vested benefits.

In the event that public agencies elect to terminate their contracts with the retirement plans, accumulated member and employer contributions, interest, and the related liability for benefits may be transferred to the employers. If amounts are not transferred to the employer, sufficient assets required to cover the related liability for benefits are retained in the retirement plans. Excess assets above those required, if any, are returned to the employer, while the employer is billed for any deficiency in assets.

CERBTF

The California Employers' Retirement Benefit Trust Fund (CERBTF) was established by chapter 331 of the 1988 Statutes and initially funded in 2007. At June 30, 2007 two employers had elected to participate in the fund. The purpose of the fund is to receive contributions from participating employers and establish separate employer prefunding accounts to pay for health care or other post employment benefits in accordance with the terms of participating employer's plans. Contributions are voluntarily determined by the employer's own funding schedule and there are no long-term contracts for contributions to the plan. The CERBTF is an agent multiple employer plan as defined in Governmental Accounting Standards Board (GASB) Statement No. 43 with pooled administrative and investment functions.

Participating employers may receive disbursements from the fund not to exceed the annual premium and other costs of eligible post-employment benefits. If the employer's participation in the fund terminates, all assets in the employer's prefunding account shall remain in the fund except as otherwise provided. Allowable termination disbursements are to a trustee or as a trustee transfer of assets upon satisfactorily showing to the Board the transfer will satisfy applicable requirements of the Internal Revenue Code and the Board's fiduciary duties, or the employer substantiates to the Board that all of the employer's obligations for the payment of post-employment benefits has been satisfied. At June 30, 2007 there were 543 active and 184 retired miscellaneous participants.

Costs to administer the plan are determined through the CalPERS Board-approved cost-allocation plan, where actual direct and indirect costs of administering the System are equitably assessed to each fund.

Defined Contribution Plans

SPOFF

The State Peace Officers' and Firefighters' Defined Contribution Plan Fund (SPOFF) is a defined contribution pension plan established by Chapter 820 of the 1998 Statutes. The plan is a qualified money purchase pension plan under Section 401(a) of Title 26 of the Internal

Revenue Code, and is intended to supplement the retirement benefits provided by the PERF to eligible correctional officers employed by the State of California.

Contributions to the plan are funded entirely by the employer, with a contribution rate of 2 percent of the employee's base pay, not to exceed contribution limits established by the Internal Revenue Code. Contribution requirements are established and may be amended through a Memorandum of Understanding from the State of California Department of Personnel Administration. These contributions, as well as the participant's share of the net earnings of the fund, are credited to the participant's account.

The net earnings of the fund are allocated to the participant's account as of each valuation date, in the ratio that the participant's account balance bears to the aggregate of all participants' account balances. The benefit paid to participants will depend only on the amount contributed to participant's account and earnings on the value of the participant's account. Plan provisions are established and may be amended by statute. At June 30, 2007, there were 37,760 participants.

IRC 457

The Public Agency Deferred Compensation Program (IRC 457) is an Internal Revenue Code Section 457(g) defined contribution plan administered by State Street Bank & Trust Company (acting as an agent of CalPERS) to provide benefits at retirement to public agency employees. Plan participation is voluntary to employees of participating public agencies, and contributions are separate from the defined benefit contributions made to CalPERS.

Members may contribute up to the limits established under the Internal Revenue Code. At June 30, 2007, there were 22,123 participants with account balances.

Members of the plan are allowed to change their contribution amount, transfer account balances among 14 investment options, or change the contribution percentages designated to each option on a daily basis. The 14 investment options are: Money Market Fund, Stable Fixed Income Fund, Bond Fund, S&P 500 Equity Index Fund, Active Large Cap Equity Fund, Russell 2000 Index Fund, Active Small Cap Equity Fund, International Equity Fund, Conservative Allocation Fund, Moderate Allocation Fund, Aggressive Allocation Fund, Insured Money Market Account, Certificate of Deposit, and the Self-Managed Options. Members may access their funds upon retirement, separation from employment, or other distributions as allowed under the Internal Revenue Code. The CalPERS Board of Administration has authorization under the Government Code of the State of California to establish plan provisions.

RBF

The Replacement Benefit Fund (RBF) was established by Chapter 938 of the 1995 Statutes and initially funded in 1998 to provide benefits to members of the PERF whose retirement benefit exceeds Internal Revenue Code Section 415(b) limits. IRC Section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan.

The RBF is funded on a "pay-as-you-go" basis. That is, money collected from an employer during any calendar year must be paid to the retiree during that same year. Employer contributions must be in amounts "equivalent to" the benefits not paid as a result of the limitations of IRC Section 415(b). CalPERS calculates the member's retirement allowance based on the member's choice of retirement option. CalPERS also is responsible for calculating the applicable dollar limit under IRC Section 415(b), and setting the employer rates. At June 30, 2007, there were 117 retirees in the RBF.

SCPF

The Supplemental Contributions Program Fund (the program) was established January 1, 2000, by Chapter 307 of the 1999 Statutes, as a separate trust fund for the Supplemental Contributions Program, a defined contribution plan that provides supplemental benefits at retirement to members of CalPERS. The program is a qualified plan under Section 401(a) of Title 26 of the United States Code, administered by CalPERS.

Currently, the program is available only to State of California employees who are members of CalPERS. The program is entirely member funded, and participation is voluntary. Participant contributions are made on an after-tax basis and are separate from the defined benefit contributions made to CalPERS. Participants may be able to contribute to a deferred compensation or 401(k) plan in conjunction with the program, if the participant remains within the Internal Revenue Code Section 415(c) limits. Distributions are allowed only at retirement or permanent separation from employment. The CalPERS Board of Administration has authorization under the Government Code of the State of California to establish plan provisions. At June 30, 2007, there were 750 participants in the program.

Other Funds Administered by CalPERS

OASI

The Old Age & Survivors' Insurance Revolving Fund (OASI) was established to consolidate the collection and payment for California public agencies of employee and employer contributions under the provisions of the federal Social Security regulations.

Federal legislation was enacted on October 21, 1986, which required direct remittance of Social Security contributions by individual public agencies and eliminates the intermediary collection and remittance of such contributions by individual public agencies and by State Social Security agencies, such as the OASI. As such, effective January 1, 1987, the OASI stopped receiving contributions from public agencies. Since then the OASI fund has operated in the capacity of an intermediary in the reconciliation of past year's payroll contributions to the federal government and to reimburse the PERF for OASI contract management services. As reconciliations are completed, amounts will be collected and transmitted to the federal government or returned to the local governments. If any liabilities are owed which the OASI cannot collect, the State of California or the appropriate public agency is responsible for payment.

HCF

The Public Employees' Health Care Fund (HCF) was established under the Public Employees' Medical and Hospital Care Act (PEMHCA) as of July 1, 1988. The self-funded plans, PERS Choice and PERSCare, are risk pools available to all entities that contract for health insurance coverage under PEMHCA. Having all members in a single risk pool spreads catastrophic claims over a large base and minimizes administrative expenses. PERS Choice and PERSCare retain all the risk of loss of allowable health claims. Fund members are not subject to a supplemental assessment in the event of deficiencies. Premium rates for PERS Choice and PERSCare are set by the Board based on a trend analysis of the historic cost, utilization, demographics, and administrative expenses of the HCF to provide for the claims incurred and the actuarially determined required level of reserves.

PERS Choice and PERSCare rely on operating cash flows and investment income to fund health benefit payments. During the 2007 fiscal year, the Board continued to increase member premiums to mitigate the impact of increasing costs associated with enrollment growth, increases in provider pricing, and increased benefit utilization. Management believes that the current sources of funding for PERS Choice and PERSCare will be adequate to provide for benefits of the plans.

Public agencies participating in PERS Choice and PERSCare are required to make periodic premium payments based on rates as established by CalPERS. Plan members pay the difference between the premium rate and the employers' contribution. Administrative costs are financed through investment earnings.

CRF

The Public Employees' Contingency Reserve Fund (CRF) was established in 1962, with the passage of PEMHCA, to fund administrative costs related to the PEMHCA program, and as a contingency reserve for such items as increases in future rates or in future benefits. PEMHCA was expanded to include local public agency employees on a contract basis in 1967. The CRF is reimbursed by the State and contracting public agencies for costs incurred for administering the program.

In the 2007 fiscal year, pursuant to GASB Statement 43, activity in the CRF is reported in two separate fund types. Administrative fees collected and related costs are accounted for in the CRF proprietary fund type. Public agency health payments and remittances to contracted health care providers are reported in the CRF Agency Fund type.

PEMHCA establishes eligibility rules for the following:

- retirees and beneficiaries receiving health care benefits;
- terminated plan members entitled to but not yet receiving benefits; and
- active plan members.

Administrative costs include direct costs of the program and a proportionate share of indirect costs allocated to the CRF by the PERF. The administrative fee is determined as a percentage of insurance premiums paid by the employers. The administrative fee for the year ended June 30, 2007, was 0.27 percent. Contribution rates are reviewed annually and are adjusted, if needed, to cover budgeted administrative costs.

Public agency employers whose employees do not elect PERS Choice and PERSCare submit the provider-determined, Board-approved premiums to the CRF Agency Fund which, in turn submits the premiums to the respective provider.

At June 30, 2007, 1,140 entities participated in health insurance coverage under PEMHCA.

LTCF

The Public Employees' Long-Term Care Fund (LTCF) began providing self-insured long-term care plans in 1995. The LTCF operates by providing long-term care coverage to enrolled members under the Public Employees' Long-Term Care Act (PERL, Chapter 15). The fund contracts with a third party to administer the program. Long-term care coverage is offered to all public employees (active or retired), their spouses, parents, parents-in-law, and siblings. The LTCF is a member-paid program with no contributions from employers. Premium rates are recommended to the Board by the program actuary and are set by the Board. Prospective enrollees apply directly to the program for long-term care coverage.

As of June 30, 2007, there are 171,412 enrollees and 3,059 participants receiving benefits.

The unrestricted net deficit in the LTCF of $842.3 million at June 30, 2007, is attributable to an increase in estimated liabilities due to significant growth of inflation-adjusted policies. The CalPERS Board of Administration increased premiums in the 2006-2007 fiscal year to eliminate future deficits. In addition, the LTCF is in the process of reviewing its current policies and exploring different options to address the deficit.

DCF

The Public Employees' Retirement System Deferred Compensation Fund (DCF) accounts for revenues and expenses associated with administrative and investment management services provided to other governments by CalPERS staff. The services provided assist other governments with their administration of deferred compensation plans. Revenues come from fees assessed the State of California Department of Personnel Administration, sponsor of the State of California Savings Plus Program, for managing one investment portfolio, and various State of California public agencies for managing 14 investment portfolios offered in the CalPERS IRC 457 plan. Expenses of the DCF are costs incurred to hire and support the CalPERS staff needed to implement the investment management and administrative services.

The DCF was established by Chapter 1659 of the 1990 Statutes, which added Government Code Sections 21420-21429. These Government Code Sections were subsequently renumbered to Government Code Sections 21670-21685 by Chapter 379 of the 1995 Statutes. Operation and initial funding of the DCF commenced July 1991.

The net assets of the portfolio managed by CalPERS for the State of California Savings Plus Program are not included in the accompanying financial statements.

Financial statements for the portfolio managed by CalPERS for the State of California Savings Plus Program may be obtained by contacting CalPERS.

SDF

The Special Deposit Fund (SDF) is a trust fund in the State Treasury that provides a depository for money which has been received in trust for a specific purpose by a State agency, but for which no other fund has been created to receive those funds. This fund is used by CalPERS, as a retiree prescription drug plan sponsor, to deposit money received from the Centers for Medicare and Medicaid Services (CMS) pursuant to the Part D Retiree Drug Subsidy of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003.

As a retiree prescription drug plan sponsor, CalPERS is eligible, under Part D guidelines, for a 28 percent subsidy payment based on each qualifying covered retiree's annual allowable prescription drug cost. CalPERS submits qualifying prescription drug expenditures to CMS and, upon approval, receives the reimbursement.

The Board of Administration requested the California Attorney General to render an opinion on the disposition of the moneys residing in the SDF. On November 2, 2006, the Attorney General opined that the Retiree Drug Subsidy funds within the SDF are to be deposited in the Public Employees' Contingency Reserve Fund. As determined by the CalPERS Board of Administration, these funds may be used to offset increases in future premium rates; reduce annuitant and employer contributions, cost containment, or increase benefits with respect to those funds that generate the Retiree Drug Subsidy. All assets of the SDF were transferred to the CRF in the 2006-2007 fiscal year.

2. Summary of Significant Accounting Policies

Measurement Focus, Basis of Accounting & Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

The accounts of CalPERS are organized and operated on the basis of funds. CalPERS has the following fund types at June 30, 2007.

Due to the types of investments held by the CRF and DCF, there was no appreciation (depreciation) in the fair value of investments in fiscal year 2007. The calculation of realized gains and losses is independent of the calculation of the change in the fair value of investments. Realized gains and losses of the current period include unrealized amounts from prior periods.

Fiduciary funds — including pension trust, other post-employment trust, and agency funds, account for assets held by the government in a trustee capacity or as an agent on behalf of others. The pension trust funds (PERF, LRF, JRF, JRF II, VFF, SPOFF, IRC 457, RBF, and the SCPF) and the other post-employment healthcare fund (CERBTF) are accounted for on the flow of economic resources measurement focus and the accrual basis of accounting. Member contributions for the PERF, LRF, JRF, and JRF II are recognized in the period in which the contributions are due. Employer contributions for the PERF, JRF, JRF II, SPOFF, CERBTF, RBF, and VFF are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits under the defined benefit plans and refunds are recognized when due and payable in accordance with the terms of each plan. The agency funds (OASI, SDF, and CRF) are custodial in nature and do not measure the results of operations. Assets and liabilities are recorded using the accrual basis of accounting.

Proprietary funds — including enterprise funds (HCF, CRF, LTCF, and DCF) are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. CalPERS applies all applicable GASB pronouncements in accounting and reporting for its proprietary operations, and follows FASB pronouncements issued prior to December 1, 1989 insofar as those standards do not conflict or contradict guidance of the GASB.

Operating revenues and expenses are distinguished from non-operating items and generally result from providing services in connection with ongoing operations. The principal operating revenues of the HCF, CRF, LTCF, and DCF are derived from self-insurance premiums and providing administrative services. Operating expenses include the cost of claims and related administrative expenses. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

GASB Statement No. 43

In April of 2004, the GASB issued Statement No. 43, Financial Reporting for Post-Employment Benefit Plans Other Than Pension Plans. The provisions of GASB Statement 43 are effective for financial statements for periods beginning after December 15, 2005. The purpose of the Statement is to establish uniform standards of financial reporting by governmental entities for other post employment benefit (OPEB) plans. The Statement establishes standards for financial reporting of OPEB plan assets, liabilities, and net assets. Also, GASB 43 establishes disclosure standards of actuarial information about the funded status and funding progress of the OPEB plan, and the contributions made by the plan sponsor in comparison to the annual required contributions of the employer(s). CalPERS has implemented the provisions of GASB Statement No. 43 for the fiscal year ending June 30, 2007.

Investments

As a result of Proposition 162 (State Constitution, Article XVI, Section 17), the CalPERS Board of Administration has plenary authority and fiduciary responsibility for the investment of monies. CalPERS invests in stocks, bonds, mortgages, real estate, alternative, and other investments. Alternative investments include two components: direct investments and partnerships. CalPERS maintains certain deposits, cash equivalents, and other investments with financial institutions.

Investments are reported at fair value. Certain construction projects and alternative investments are reported at cost which approximates market value. The fair values of investments in securities are generally based on published market prices and quotations from major investment firms. Many factors are considered in arriving at fair value. In general, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock, less an appropriate discount. Investments held in internally and externally managed investment pools have been reported at fair value.

Mortgages are valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar instruments. The fair value of real estate investments, principally rental property subject to long-term net leases, is estimated based on independent appraisals. Short-term investments are reported at market value, when available, or at cost plus accrued interest, which approximates market value when market values are not available. For investments where no readily ascertainable market value exists, management, in consultation with their investment advisors, has determined the fair values for the individual investments. Alternative investments are valued based upon partnerships' June 30, 2007 financial statements.

There are certain market risks, credit risks, liquidity risks, foreign currency exchange risks, and event risks which may subject CalPERS to economic changes occurring in certain industries, sectors, or geographies.

Derivatives

Under the State Constitution and statutory provisions governing CalPERS investment authority, CalPERS, through its outside investment managers, holds investments in futures and options and enters into forward foreign currency exchange contracts. Futures and options with fair values of approximately $30.3 million are held for investment purposes and included within the financial statements at June 30, 2007. Gains and losses on futures and options are determined based upon quoted market values and recorded in the Statement of Changes in Fiduciary Net Assets.

Due to the level of risk associated with certain derivative investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Forward foreign currency exchange contracts are used primarily to hedge against changes in exchange rates related to foreign securities. At June 30, 2007, CalPERS has approximately $30.2 million net exposure to loss from forward foreign currency exchange transactions related to the approximately $5.7 billion and $49.1 billion international debt and equity portfolios, respectively.

CalPERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. CalPERS investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. CalPERS anticipates that the counterparties will be able to satisfy their obligations under the contracts.

Capital Assets

Capital assets are defined by CalPERS as assets with an initial individual cost of $5,000 or more, and an estimated useful life in excess of one year.

Capital assets held by the PERF, consisting of buildings, furniture, and equipment, are recorded at cost or, if donated, at their estimated fair market value at the date of donation. Capital assets are depreciated over their estimated useful lives, ranging from one to five years for furniture and equipment and 40 years for buildings, using the straight-line method of depreciation.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of net assets held in trust for pension and post-employment healthcare benefits and changes therein, IBNR, claims payable, and disclosure of contingent liabilities at the date of the financial statements. Actual results could differ from those estimates.

Comparative Totals

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with CalPERS financial statements for the year ended June 30, 2006 , from which the summarized information was derived.

Reclassifications

Certain reclassifications have been made to the comparative totals as of and for the year ended June 30, 2006 to conform to the presentation as of June 30, 2007.

3. Cash & Cash Equivalents

Cash and cash equivalents of approximately $347.0 million in 2007 represent amounts held in the CalPERS general operating accounts with the State Treasury. These monies are not individually identifiable by fund, as they are pooled with the monies of other State agencies and invested by the State Treasurer's Office.

4. Investments

For the year ended June 30, 2007, State Street Bank & Trust Company was the master custodian for significantly all of the securities of CalPERS, however, certain securities are held by alternative investment managers. Real estate deeds of trust are held in the name of Limited Liability Corporations and Partnerships. The investments held by PERF, LRF, JRF II, VFF, SCPF, CERBTF and LTCF have been commingled in internally managed investment pools. The investment pools are an internally managed domestic equity pool, an internally managed debt securities pool, and an international equity securities pool managed by State Street Bank & Trust Company. Each of the six funds has a different asset allocation based on Board-approved policy.

In accordance with GASB Statement 40, CalPERS discloses investments of all CalPERS managed funds that are subject to certain risks: custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

GASB Statement 40 investment risk disclosures begin on page 50, disclosing the investments subject to the various risks for the PERF and all other affiliate funds.

Securities Lending

The State Constitution and CalPERS Board policies permit CalPERS to use investments of the PERF to enter into securities lending transactions; collateralized loans of securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. CalPERS has contracted with Boston Global Advisors (BGA), eSecLending LLC (eSec), Credit Suisse (CS), State Street Bank & Trust (SSB), and Wachovia Global Securities Lending (WGSL, formerly Metropolitan West Securities, LLC) as third-party securities lending agents to lend domestic and international equity and debt securities. Additionally, CalPERS contracts with eSecLending as an administrative agent for CalPERS principal borrowers.

Domestic and international securities are collateralized for cash at 102 percent and 105 percent of the securities market value. Management believes CalPERS has minimized credit risk exposure to borrowers by requiring the borrower to provide collateralization greater than 100 percent of the market value of the securities loan. The securities loaned are priced daily. On June 30, 2007 the fair market value of the securities on loan was $44.8 billion.

In the event that a borrower fails to return the securities or fails to remit income distributions by the securities' issuers to CalPERS while the securities are on loan, the agent is responsible for the associated costs. Securities on loan can be recalled on demand by CalPERS, and loans of securities may be terminated by CalPERS or the borrower. CalPERS may enter into term loan agreements which are evaluated on an individual basis.

The cash collateral is invested in accordance with CalPERS investment guidelines in short-term, high-credit quality fixed income securities. Currently, CS, eSec, and CalPERS manage the not rated cash collateral pools. For the year ended June 30, 2007, the cash collateral invested by CS, eSec, CalPERS High Quality Libor and CalPERS Short Duration Libor in short-term securities had weighted average maturities of 46 days, 158 days, 547 days, and 410 days, respectively, and durations of 1, 18, 36, and 40 days, respectively.

Real Estate

Real estate investments are classified as investments in accordance with GASB Statement 25. Certain real estate investments are leveraged whereby partnerships have been established to purchase properties through a combination of contributions from CalPERS and other investors and through the acquisition of debt. At June 30, 2007, real estate equities of approximately $37.0 billion are reported at estimated fair market value net of short-term liabilities. Of this amount $20.1 billion is equity and $16.9 billion is long-term debt.

Required repayment of real estate debt is as follows.

(Dollars in Thousands)

Debt Matures Year Ending June 30	Amount
2008	$2,388,420
2009	2,845,777
2010	2,862,716
2011	2,032,698
2012	1,101,045
2013-2017	4,268,665
2018-2022	575,931
2023-2027	33,878
2028-2032	508,174
2033-2037	321,844
Grand Total	**$16,939,148**

Other Investment Income

Total other investment income earned by CalPERS in the 2007 fiscal year is $392.7 million. This total consists of income from securities litigation, sale of fractional shares, other miscellaneous income earned across all other investment portfolios, amortization income earned in the fixed income portfolios, $2.0 million from the directed brokerage program.

The following investment risk schedules disclose CalPERS investments subject to certain types of risk, pursuant to GASB Statement 40. Each schedule discloses investments of all funds managed by CalPERS subject to each type of risk. Some securities are held in internally-managed investment pools shared by all funds.

Custodial Credit Risk

CalPERS does not have any funds or deposits that are not covered by depository insurance, which are either uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent, but not in CalPERS name. Nor does CalPERS have any investments that are not registered in the name of CalPERS and are either held by the counterparty or the counterparty's trust department or agent, but not in CalPERS name.

Concentration of Credit Risk

CalPERS does not have investments in any one issuer which represent 5 percent or more of total fair value of all investments.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolios using the effective duration or option-adjusted methodology. The System's investment policies require the option-adjusted duration of the total fixed income portfolio to stay within 20 percent of the option-adjusted duration of its benchmark (Lehman Brothers Long Liabilities). All individual portfolios are required to maintain a specified level of risk relative to their benchmark. Risk exposures are monitored daily. These are reported grouped by effective duration ranges.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System's investment policies establish general as well as specific risk measures for the fixed income portfolio. From the most general perspective, 90 percent of the total fixed income portfolio must be invested in investment-grade securities.

Investment-grade securities are those fixed income securities with a Moody's rating of AAA to BAA or a Standard & Poors rating of AAA to BBB. Each portfolio is required to maintain a specified risk level. Portfolio exposures are monitored daily.

CalPERS — Debt Security Investments Subject to Interest Rate Risk

(Dollars in Thousands)

	Market Value June 30, 2007	Percent of All Debt Securities	Portfolio Weighted Average Effected Duration (Years)
Debt Security Type			
U.S. Treasuries & Agencies	$16,650,258	24.9%	9.01
Mortgages	25,256,693	37.8	6.39
Corporate	13,447,274	20.1	8.69
Asset Backed	1,322,684	2.0	3.65
Private Placement	9,161	0.0	2.06
International	6,778,416	10.1	6.96
Not Rated:			
Commingled	43,924	0.1	N/A
Cash Equivalent	1,599,160	2.4	N/A
Corporate	520,874	0.8	N/A
Asset Backed	286,803	0.4	N/A
Mortgages	637,093	1.0	N/A
Private Placement	235,416	0.4	N/A
Total[1]	**$66,787,756**	**100.0%**	

Note:

[1] The above table represents the fair value of investments in the fixed income portfolios. The debt securities investments line item in the statement of fiduciary net assets and the statement of net assets are reported at net asset value which includes accruals for certain unitized portfolios.

CalPERS

Debt investment securities of all CalPERS managed funds at market value that are subject to credit risk.

CalPERS — At Market Value Subject to Credit Risk

(Dollars in Thousands)

Moody's Quality Rating	Fair Value	Fair Value as a Percent of Total Debt Security Investments
AAA	$26,868,346	40.2%
AA1	362,973	0.5
AA2	551,292	0.8
AA3	808,464	1.2
A1	616,490	0.9
A2	1,812,070	2.7
A3	1,191,760	1.8
BAA1	3,028,088	4.5
BAA2	3,314,482	5.0
BAA3	1,738,922	2.6
BA1	278,347	0.4
BA2	448,492	0.7
BA3	45,610	0.1
B1	147,845	0.2
B2	100,372	0.2
B3	131,977	0.2
CA	63	0.0
NA[1]	11,568,829	17.3
NR[2]	13,773,334	20.6
Total[3]	**$66,787,756**	**100.0%**

Note:

1 NA represents those securities that are not applicable to the rating disclosure requirements.

2 NR represents those securities that are not rated.

3 The above table represents the fair value of investments in the fixed income portfolios. The debt securities investments line item in the statement of fiduciary net assets and the statement of net assets are reported at net asset value which includes accruals for certain unitized portfolios.

Foreign Currency Risk

Foreign currency risk is defined as any deposits or investments that are denominated in foreign currencies, which bear a potential risk of loss arising from changes in currency exchange rates. The System's asset allocation and investment policies allow for active and passive investments in international securities. The System's target allocation is to have 33 percent of total global equity assets invested in international equities and 11.5 percent of total fixed income invested in international securities. Real estate and alternative investments do not have a target allocation for international investments. The System uses a currency overlay program to reduce risk by hedging approximately 25 percent of the developed market international equity portfolio. Currency exposures are monitored daily.

Investment securities of all CalPERS managed funds that are subject to foreign currency risk.

CalPERS — International Investment Securities — At Fair Value at June 30, 2007

(U.S. Dollars in Thousands)

Currency	Equity	Alternative Investments	Fixed Income	Real Estate	Cash	Total
Argentine Peso					$1,472	$1,472
Australian Dollar	$596,947	$35,355	142,928	$262	10,261	785,753
Brazilian Real	590,792				1,733	592,525
Canadian Dollar	314,911	81,431	99,722		8,410	504,474
Chilean Peso	42,766				2,695	45,461
Czech Koruna	19,366				176	19,542
Danish Krone	68,594	804	179,296		4,893	253,587
Egyptian Pound	28,372					28,372
Euro Currency	4,918,797	1,208,531	1,500,579		148,633	7,776,540
Hong Kong Dollar	338,629			481	10,456	349,566
Hungarian Forint	102,855		1,944		970	105,769
Indian Rupee	472,127				544	472,671
Indonesian Rupiah	139,602				114	139,716
Israeli Shekel	128,763				844	129,607
Japanese Yen	2,035,923	24,426	587,825	812	29,058	2,678,044
Malaysian Ringgit	161,602				164	161,766
Mexican Peso	407,169		13,652		1,151	421,972
Moroccan Dirham	104					104
New Taiwan Dollar	840,882				17,239	858,121
New Turkish Lira	206,670				5,291	211,961
New Zealand Dollar	7,092				98	7,190
Norwegian Krone	97,715		33,658		1,381	132,754
Philippine Peso	76,784				18,176	94,960
Polish Zloty	56,264		61,262		282	117,808
Pound Sterling	2,112,571	479,827	416,996	14,727	34,727	3,058,848
Singapore Dollar	228,361			713	4,002	233,076
South African Rand	466,900				7,097	473,997
South Korean Won	1,183,675		32,215		755	1,216,645
Sri Lanka Rupee	724					724
Swedish Krona	418,010		51,698		1,671	471,379
Swiss Franc	693,678	394			7,064	701,136
Thailand Baht	207,613				1,492	209,105
Total	**$16,964,261**	**$1,830,768**	**$3,121,774**	**$16,994**	**$320,850**	**$22,254,647**

5. Contributions & Reserves

Employer Contributions Actuarially Determined & Contributions Made

Employer contributions are calculated as a percentage of employer payroll. OPEB plan employer contributions are voluntarily determined by the employer and there are no long-term contracts for contributions. The payroll for employees covered by the PERF, JRF, and JRF II in 2007 was approximately $40.6 billion, $120.4 million, and $145.6 million, respectively.

The PERF, CERBFT and JRF II use a Modified Entry Age Normal Actuarial Cost Method, which is a projected benefit cost method. That is, the method takes into account those benefits that are expected to be earned in the future, as well as those already accrued.

According to this cost method, the normal cost for an employee pension liability is the level amount which would fund the projected benefit if it were paid annually from date of employment until retirement. The Entry Age Normal Actuarial Cost Method used by the PERF, CERBTF, and JRF II is modified by CalPERS so that the employers' total normal cost is expressed as a level percentage of payroll. The PERF, CERBTF, and JRF II use the level percentage of payroll method to amortize any unfunded actuarial liabilities.

The VFF uses the Unit Credit Actuarial Cost Method as the basis for its valuation. The LRF and JRF use the Aggregate Actuarial Cost Method as the basis for their valuations.

The significant actuarial assumptions used in the 2006 valuations to compute the actuarially determined contribution requirements for the PERF, JRF II, and VFF are the same as those used to compute the actuarial accrued liability. The CERBTF uses assumptions similar to the pension plans with the addition of the Health Cost Trend Rate assumption.

Assumptions used in the actuarial valuations are included in the Notes to Required Supplemental Schedules.

Restrictions on Net Assets Available for Benefits

Included in the Net Assets Held in Trust for Pension Benefits is a restricted reserve that, by law, is retained in the PERF and LRF as a reserve against deficiencies in interest earned, potential losses under investments, court-mandated costs, and actuarial losses resulting from terminations, mergers, or dissolutions of contracting agencies. This reserve cannot exceed 0.2 percent of total assets of the PERF and the LRF, and totaled approximately $514.7 million and $285,000 as of June 30, 2007 for the PERF and LRF, respectively.

PERF

Actuarial valuations of the PERF are performed annually. The last valuation was performed as of June 30, 2006, for the State, schools, and public agencies.

The total 2007 net retirement contributions for the PERF amounted to approximately $9.7 billion, of which $6.4 billion (the actuarially determined annual required contribution) came from 1,561 employers and approximately $3.3 billion came from nearly 823,000 members. Normal cost is 10.569 percent of covered payroll, and amortization of the unfunded liabilities is 4.633 percent of covered payroll. These figures are averages for all employers. The actual figures vary by each employer's plan.

LRF

The current contribution requirements of the LRF are based on actuarially determined rates promulgated as part of legislation passed in 1977.

Actuarial valuations of the LRF are required to be carried out at least every two years. The Board of Administration utilizes these actuarial valuations to make recommendations to the State for financing the Fund. For the fiscal year ending June 30, 2007, there was no statutory contribution required based on the June 30, 2005 valuation.

JRF

Contributions made by the State of California to the JRF are made pursuant to State statute and are not actuarially determined; however, an actuarial valuation of the JRF assets and liabilities is performed every year and is used by CalPERS to make recommendations for financing the JRF.

The California law which states that on and after January 1, 2004, the JRF shall be funded and actuarially sound was amended in conjunction with the adoption of the Judges' Retirement System II Law, which, among other provisions, eliminated the requirement that the JRF be funded and actuarially sound. Recommendations to achieve the necessary level of contributions have been submitted by the CalPERS Board to the Legislature.

As of June 30, 2007, funding was provided from the following sources to meet benefit payment requirements.

- ***Member Contributions*** — 8 percent of applicable member compensation.
- ***Employer Contributions*** — 8 percent of applicable member compensation.
- ***Filing Fees*** — Varying amounts depending on fee rate and number of filings.
- ***Investments*** — Current yield on short-term investments.
- ***State of California "Balancing Contributions"*** — An amount required by the Judges' Retirement Law, at least equal to the estimated benefits payable during the ensuing fiscal year less the sum of 1) the estimated member contributions during the ensuing fiscal year and; 2) net assets available for benefits at the beginning of the fiscal year.

Under the pay-as-you-go basis, short-term investments as well as contributions received during the year are used to make benefit payments. Management and legal counsel believe the State of California is legally required to provide these required contributions to fund the benefits.

For the year ended June 30, 2007, the actual contributions made by the State to the JRF were approximately $131.4 million, which is significantly less than the actuarially determined annual required contribution of approximately $560.9 million.

Because current contributions are used to make benefit payments, the fund does not retain the accumulated contributions of active members. The cumulative contributions of all currently active members since inception were approximately $145.1 million at June 30, 2007, which exceeded Net Assets Held in Trust for Pension Benefits by approximately $133.4 million at June 30, 2007.

JRF II

Actuarial valuations for the JRF II are required to be carried out annually. The legislated State contribution rate will be adjusted periodically as part of the annual Budget Act in order to maintain or restore the actuarial soundness of the fund. The last actuarial valuation was performed as of June 30, 2006.

For the year ending June 30, 2007, the statutory employer contribution rate was 19.917 percent based on the June 30, 2005 actuarial valuation. Therefore, for the year ended June 30, 2007, the contributions made by the State to the fund were approximately $27.1 million, which is slightly less than the actuarially determined required contributions of approximately $28.5 million.

VFF

The current contribution requirements of the VFF are based on actuarially determined rates promulgated as part of the Volunteer Firefighters' Length of Service Award Act passed in 1979.

Actuarial valuations of the VFF are required to be carried out at least every two years. The last valuation was performed as of June 30, 2006. The Board of Administration utilizes these actuarial valuations to make recommendations for financing the fund.

Contributions for prior service credits are recognized as revenue by VFF at the time a contract with the participating agency is executed. The participating agency may elect to pay the contributions for prior service credits in a lump sum or over a period of up to 10 years.

CERBTF

The actuarial valuations for the CERBTF are conducted by outside actuarial firms engaged by participating employers that must base their valuations on the CalPERS OPEB Assumption Model. This model requires the use of actuarial methods and assumptions similar to those employed for the

PERF. An additional assumption used for the CERBTF is the health care cost trend rate. The actuarial valuation estimates the cost of future health and other post-employment benefit insurance premiums for current and retired participating employees.

The total 2007 actual net OPEB employer contribution from two participating employers was $11.5 million, compared to the actuarially determined annual required contribution of 5.4 percent of covered payroll or $2.3 million. Contractual maximum contributions to the plan are not to exceed the present value of future benefits. There are no legally required reserves at the reporting date.

CERBTF calculations are based upon plan benefits defined by the Public Employees Hospital Care Act (PEMHCA) in effect at the time of the valuations. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of future employer and employee cost sharing

6. Commitments

At June 30, 2007, CalPERS total capital commitments to private equity funds was $37.7 billion. Of this amount, $14.0 billion remained unfunded and is not recorded on the CalPERS Statement of Fiduciary Net Assets.

At June 30, 2007, CalPERS total commitments to purchase real estate equity was $996.1 million.

7. Contingencies

CalPERS has entered into agreements with a number of issuers of non-taxable debt to provide payment of principal and interest in the event of non-payment. CalPERS is paid a quarterly fee over the term of the agreement for each transaction. The majority of the transactions are supported by collateral, letters of credit from banks or bond insurers for repayment. As of June 30, 2007, the credit enhancement program had contingent liabilities of approximately $1.0 billion and net fee income of approximately $2.0 million.

CalPERS is a defendant in litigation involving individual benefit payment and participant eligibility issues and arising from its normal activities. In the event of an adverse decision, any payments awarded by the courts would be recovered by CalPERS through prospective adjustments to the employer contribution rate. Based upon consultation with legal counsel, management believes there will be no material adverse effect on the basic financial statements as a result of the ultimate outcome of these matters. However, the LRF is a defendant in litigation involving the payment of survivor death benefits and interest to a deceased retiree's surviving spouse in the amount of $3.6 million. The matter is currently on appeal with the Court of Appeal of the State of California.

8. Health Care Fund

Basis for Estimated Liabilities

The Public Employees' Health Care Fund (HCF) establishes claim liabilities based on estimates of the ultimate costs of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been "incurred but not reported" (IBNR). The estimated claims liability was calculated by Blue Cross, the HCF's third-party administrator, at June 30, 2007, using a variety of actuarial and statistical techniques and adjusted for actual experience to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. The estimated claims liability of $173.4 million is carried at its face amount, and no interest discount is assumed. The IBNR portion represents an estimate for claims that have been incurred prior to June 30, 2007, but have not been reported to the HCF.

Anticipated Investment Income and Reinsurance

Anticipated investment income is not included in the annual premium requirement for HCF members. Also, the HCF has not entered into any reinsurance or excess insurance agreements.

The following represents changes in the aggregate estimated claims liabilities of the HCF for the years ended June 30.

(Dollars in Thousands)

	PERSCare/PERS Choice	
	2007	**2006**
Total Estimated Claims at Beginning of Fiscal Year	**$159,063**	**$159,403**
Incurred Claims & Claim Adjustment Expenses:		
Provision for Insured Events of the Current Fiscal Year	$1,268,240	$1,202,409
Decrease in Provision for Insured Events of Prior Years	(55,533)	(70,990)
Total Incurred Claims & Claim Adjustment Expenses	**$1,212,707**	**$1,131,419**
Payments:		
Claims & Claim Adjustment Expenses Attributable to Insured Events of the Current Year	$1,094,818	$1,043,346
Claims & Claim Adjustment Expenses Attributable to Insured Events of the Prior Fiscal Year	103,530	88,413
Total Payments	**$1,198,348**	**$1,131,759**
Total Estimated Claims at End of the Fiscal Year	**$173,422**	**$159,063**

9. Long-Term Care Fund

The Public Employees' Long-Term Care Fund (LTCF) estimate of the funding level to provide for the payment of future claim benefits is predicated upon participation levels that are expected to be achieved by the program. The premiums from the LTCF are recognized during the period covered.

The LTCF establishes the liability for future policy benefits based on the present value of future benefits and expenses less the present value of future premiums. The liability for future policy benefits was calculated by the fund's actuary, using a variety of actuarial and statistical techniques as part of their actuarial review as of June 30, 2007. Certain key assumptions used in this calculation are a discount rate of 7.79 percent (the average rate of assumed investment yields in effect for the current year), morbidity, disability continuance, mortality, voluntary termination, and claims expense. The total estimated liability for future policy benefits as of June 30, 2007, was $3.0 billion. Of that amount, $114.9 million is expected to be paid in fiscal year 2008 and is included in current liabilities.

10. California Employers' Retiree Benefit Trust Fund - Funding Status and Progress

The following represents the funded status of the post-employment healthcare plan as of the most recent valuation date. CERBTF actuarial valuations involve estimates of the value and probability assumptions of events far into the future, and these amounts and assumptions are subject to continual revision as actual results are compared to past expectations. Calculations are based on the benefits provided under the terms of the plan in effect and the pattern of cost sharing between employees and the employer. The projection of benefits does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing. CERBTF actuarial calculations reflect long-term perspectives and use techniques that are designed to reduce short-term volatility.

Schedules of funding progress over multiple years is included in the Required Supplemental Schedules section that follows.

Funded Status of the CERBTF

(Dollars in Millions)

Actuarial Valuation Date	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL) Entry Age	(3) Unfunded AAL (UAAL) (2) – (1)	(4) Funded Ratio (1)/(2)	(5) Annual Covered Payroll	(6) UAAL as a % of Covered Payroll (3)/(5)	(7) Market Value of Assets	(8) Funded Ratio-Market Value of Assets Basis (7)/(2)
CERBTF								
6/30/07	$11.4	$23.6	$12.2	48.5%	$37.1	32.8%	$11.4	48.5%

Actuarial Methods and Significant Assumption	CERBTF
Valuation Date	
Adoption Date	June 30, 2007
Actuarial Cost Method	Entry Age Normal
Amortization Method	Closed
Remaining Amortization Period	30 Years
Asset Valuation Method	Current Market Value
Health Care Cost Trend Rate	
Service	5 - 9 Years
Initial Rate	9.00 - 11.70%
Ultimate Rate	4.50 - 5.00%
Actuarial Assumptions:	
Net Investment Rate of Return	7.75%
Projected Salary Increases [1]	3.25%
Post Retirement Benefit Increase	N/A
[1] Includes Inflation at:	3.00%

11. Subsequent Events

Subprime Residential Mortgage-Backed Securities

The recent events regarding subprime residential mortgage-backed securities and the real estate markets have not, to date, materially affected the fair value of investments. However, future investment returns could be adversely impacted in certain asset classes. The incidence of mortgage delinquencies particularly for subprime mortgages may affect the high quality credit rated investments in mortgage pools. Also, residential housing development investments could be impacted due to the nation-wide downturn in the residential real estate market. Real estate construction development projects are accounted for and reported at cost until project completion. In response to recent events, CalPERS management is assessing the likely impact on future investment returns and developing risk mitigation strategies.

Volunteer Firefighters' Length of Service Award Fund

On October 13, 2007 Senate Bill 581 was chaptered as Chapter 651 of the Statutes of 2007. SB 581 removes responsibility for administration of the VFF from the CalPERS Board on March 1, 2008 and places it with the board of the California State Fire Employees Welfare Benefit Corporation (CSFEWBC). This bill also requires CalPERS, in the event the transfer of the VFF is not completed on or before March 1, 2008, to terminate the program, reimburse itself for administrative expenses incurred, and distribute the remaining assets first to award recipients and those qualified to receive an award as of March 1, 2008, as a lump-sum payment, and the remainder of award system assets to participating fire districts on a pro-rata basis. Additionally, it requires CalPERS or the CSFEWBC to notify award recipients and participating fire districts in writing of the transfer of the award system, and requires fire districts to provide written notice of the transfer to its participating firefighters.